TAX EXPENDITURES

2006 EDITION

Québec

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A Word from the Deputy Minister

Mr. Minister,

I am pleased to send you the 2006 Edition of Tax Expenditures produced by the ministère des Finances in cooperation with the ministère du Revenu.

In accordance with the undertaking given in the 2006-2007 Budget Speech, the ministère des Finances will publish the report on tax expenditures each year from now on. Publishing this information on a more frequent basis will help improve transparency regarding the financial information on the government released to the public.

The document gives a brief description of the tax expenditures of the Québec tax system and quantifies their cost for the period from 2001 to 2007.

Yours truly,

JEAN HOUDE
Deputy Minister of Finance

Tax Expenditures

2006 Edition

Summary

Introduction

Part I
Definition and cost of tax expenditures

Part II
Description of tax expenditures

Summary

The main purpose of the tax system is to generate enough revenue to enable the government to finance its activities. It also has other goals: the government uses it to pursue certain strategic economic, social, cultural and other objectives such as supp2

Over the years, the government has introduced many measures, commonly called "tax expenditures", into the tax system to afford tax relief for certain specific groups of individuals or businesses, or in relation to certain activities.

Tax expenditures reduce or defer taxes otherwise payable by taxpayers. They come in many forms, in particular as income not subject to tax, tax exemptions, tax refunds, deductions in calculating income, tax credits or tax deferrals.

This document sets out the situation of the tax expenditures of Québec's tax system. It specifies the tax expenditures for eight tax fields and gives the cost of each one to the government from 2001 to 2007.[1]

1. *Tax expenditures in 2006*

Québec's tax system includes more than 280 tax expenditures. Of these, nearly 145 relate to the personal income tax system, more than 90 to the corporate tax system and 45 to the consumption tax system.

Despite certain caveats,[2] the addition of tax expenditures is very useful for illustrating their relative size. Overall, tax expenditures will total $18.6 billion for 2006, i.e. roughly 32% of the government's tax revenues.[3] This amount breaks down as follows:

— 67.8% stemmed from tax expenditures relating to personal income tax;
— 13.5% stemmed from tax expenditures relating to corporate taxes;
— 18.7% stemmed from tax expenditures relating to consumption taxes.

Measures pertaining to individuals represent $15.5 billion in tax expenditures compared to $3.1 billion for those applying to businesses.

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[1] The analysis in this document reflects the fiscal measures announced prior to July 1, 2006.
[2] For more information, see page 23 of Part I.
[3] Before tax expenditures.

OVERALL COST OF TAX EXPENDITURES IN 2006[1]

	Individuals	Corporations	Total	
	($ million)	($ million)	($ million)	(Share)
Personal income tax system	12 606	—	12 606	*67.8%*
As a percentage of personal income tax[2, 3]	—	—	*43.1%*	—
Corporate tax system	—	2 514	2 514	*13.5%*
As a percentage of corporate taxes[3, 4]	—	—	*20.7%*	—
Consumption tax system	2 865	618	3 483	*18.7%*
As a percentage of consumption taxes[3]	—	—	*21.9%*	—
TOTAL	**15 471**	**3 132**	**18 603**	***100.0%***
As a percentage of tax revenues[3]	—	—	*32.4%*	—

[1] Including fiscal measures announced prior to July 1, 2006.

[2] Including the personal contribution to the Health Services Fund.

[3] Prior to tax expenditures.

[4] Including income tax, tax on capital and employer contributions to the Health Services Fund.

The largest tax expenditures are associated with the personal tax system. Many of these are designed to encourage saving for retirement, maintain the progressive nature of the tax system and support families financially. These include, in particular:

- the deductibility of contributions to a registered retirement savings plan (RRSP) or a registered pension plan (RPP);
- the tax credit relating to the minimum complementary amount included in the determination of the basic tax credit;
- the refundable tax credit for child assistance;
- the refundable tax credit granting a work premium;
- tax credits for children who are students;
- the refundable tax credit for the Québec sales tax (QST);
- the refundable tax credit for child care expenses;
- the property tax refund.

In the corporate tax system, the largest tax expenditures target scientific research, investment, culture, the new economy and development of the regions. These include, in particular:

- tax credits for scientific research and experimental development (R&D);
- the capital tax credit regarding certain investments;
- the tax credit for Québec film and television production;
- fiscal measures for corporations located in designated sites including E-Commerce Place, the Cité du multimédia and new economy centres;
- tax credits relating to the resource regions.

The main measures relating to the consumption tax system focus mainly on individuals. They include:

- the zero-rating of basic groceries (QST);
- the exemption of rental accommodation (QST);
- the exemption with respect to an individual policy of insurance of persons (taxes on insurance premiums);
- the zero-rating of financial services (QST).

COST OF CERTAIN TAX EXPENDITURES IN 2006
(Millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	2 091
• Refundable tax credit for child assistance[2]	2 063
• Registered pension plan[1]	1 904
• Minimum complementary amount included in the determination of the basic tax credit	1 412
• Non-taxation of capital gains on a principal residence	834
• Refundable tax credit for the Québec sales tax	465
• Partial inclusion of capital gains	381
• Refundable tax credit granting a work premium	315
• Tax credit for medical expenses	313
• Deduction for workers	300
• Property tax refund	258
• Refundable tax credit for child care expenses	165
• Tax credit for donations	147
• Tax credit with respect to age	145
• Tax credit for tuition or examination fees	98
• Other	1 715
Subtotal: personal income tax	***12 606***
Corporate taxes	
• Tax credits for scientific research and experimental development	622
• Partial inclusion of capital gains	378
• Exemption of the first $1 million of paid-up capital	246
• Reduced tax rate for small businesses	150
• Tax credit for Québec film and television production	99
• Capital tax credit regarding certain investments	88
• Tax credit for corporations located in E-Commerce Place	74
• Tax credit for processing activities in resource regions	54
• Tax credit for the declaration of tips	51
• Tax credit relating to resources	44
• Tax credit for the production of multimedia titles	35
• Other	673
Subtotal: corporate taxes	***2 514***
Consumption taxes	
• Zero-rating of basic groceries	1 133
• Exemption of rental accomodation	404
• Exemption with respect to an individual policy of insurance of persons	303
• Exemption of health care services	176
• Zero-rating of financial services	160
• Zero-rating of books	45
• Other	1 262
Subtotal: consumption taxes	***3 483***
TOTAL	**18 603**

[1] Includes the deduction of contributions and the non-taxation of investment income, less the taxation of withdrawals.

[2] Includes the supplement for handicapped children.

2. Change in the cost of tax expenditures from 2001 to 2007

In 2001, the cost of all tax expenditures was $11.6 billion. For 2007, it will amount to $19.6 billion. Many factors may explain this increase, in particular modifications to fiscal policy and changes in Québec's economy.

CHANGE IN THE OVERALL COST OF TAX EXPENDITURES FROM 2001 TO 2007[1]
(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007
Personal income tax							
• Support for families and work incentive	1 308	1 251	1 193	1 189	2 651	2 695	2 723
• Retirement assistance	1 662	760	4 459	3 883	4 090	4 201	4 405
• Progressivity	2 077	2 068	2 188	2 271	2 522	2 592	2 680
• Capitalization of businesses[2]	210	248	163	183	195	190	184
• Other	1 478	1 576	1 869	2 189	2 554	2 928	3 390
Subtotal: personal income tax	***6 735***	***5 903***	***9 872***	***9 715***	***12 012***	***12 606***	***13 382***
Corporate taxes							
• Tax credits and tax holidays	1 521	1 666	1 639	1 541	1 544	1 639	1 711
• General application measures	502	276	372	372	378	575	580
• Exemption of the first $1 million of paid-up capital from the tax on capital	-	-	82	189	266	246	230
• Other	36	50	54	49	50	54	64
Subtotal: corporate taxes	***2 059***	***1 992***	***2 147***	***2 151***	***2 238***	***2 514***	***2 585***
Consumption taxes							
• Zero-rated property and services	1 236	1 299	1 340	1 422	1 513	1 576	1 629
• Exempted property and services	619	646	674	715	746	781	812
• Tax rebates	341	372	417	427	422	423	423
• Other	607	626	643	667	672	703	724
Subtotal: consumption taxes	***2 803***	***2 943***	***3 074***	***3 231***	***3 353***	***3 483***	***3 588***
TOTAL	**11 597**	**10 838**	**15 093**	**15 097**	**17 603**	**18 603**	**19 555**

[1] Estimates for 2001 to 2004 and projections thereafter.

[2] Measures to foster the capitalization of businesses include the tax credit for contributions to a labour fund, the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins, the deduction relating to the cooperative investment plan and the deduction for the acquisition shares under the SME Growth Stock plan.

☐ PERSONAL INCOME TAX

Three main factors characterize the changes in tax expenditures relating to personal income tax.

- First, as was the case elsewhere in Canada, there was a major decline in tax expenditures related to retirement in 2001 and 2002, mainly because of the sharp drop in stock market returns. For those two years, the decline in stock market returns reduced the value of the non-taxation of investment income in RRSPs and RPPs. The situation returned to normal beginning in 2003.

- Second, the cost of tax expenditures rose in 2005 as a result of the measures of the 2004-2005 Budget Speech. Indeed, the 2004-2005 Budget returned $1 billion to taxpayers by introducing the refundable tax credit for child assistance and the refundable tax credit granting a work premium and by simplifying the tax system (see box on page 35, Part I).

- Third, the deduction for workers, introduced in the 2005-2006 Budget Speech and enhanced in the 2006-2007 Budget, increased the cost of tax expenditures for 2006 and 2007. Close to $600 million will be allocated to this measure for 2007.

☐ CORPORATE TAXES

— Tax assistance for businesses[4]

From 1999 to 2002, the cost of tax expenditures relating to the corporate tax system and consequently tax assistance for businesses, increased significantly especially because of the introduction of new fiscal measures.

In the 2003-2004 Budget Speech and the 2004-2005 Budget Speech, the government reviewed the tax expenditures relating to the corporate tax system that resulted in stabilizing the increase in tax assistance for businesses for 2003 to 2005. This effort, which slowed the growth in the cost of tax expenditures, is estimated at $662 million for 2005, representing a decline of 28% compared to the total tax assistance prior to the tightening effort. Over the period 2003-2005, tightening measures led to savings of more than $1.4 billion.

For 2006 and 2007, tax assistance for businesses is rising and, with the implementation of new fiscal measures, will approach $1.9 billion for 2007.

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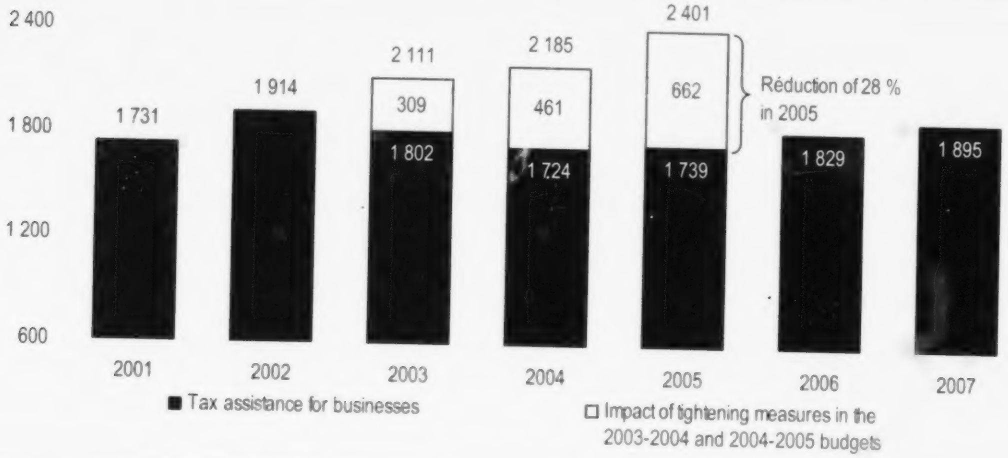
[4] Tax assistance for businesses is a sub-set of the fiscal measures relating to the corporate tax system. This tax assistance, which totals $1 829 million for 2006, includes tax credits and tax holidays ($1 639 million) and fiscal measures pertaining to personal income tax designed to increase the capitalization of businesses ($190 million). See the box on page 33, Part I for more details.

CHANGE IN TAX ASSISTANCE FOR BUSINESSES – 2001 TO 2007
(Millions of dollars)



— Support for strategic economic development measures

In recent years, the government has determined that certain fields and activities are strategic and must be supported. The tax assistance allocated to them is estimated at a little more than $1.8 billion for 2006 and roughly $1.9 billion for 2007. The tax credits for scientific research and experimental development alone account for almost 35% of all tax assistance for businesses, corresponding to more than $620 million for 2006.

In addition, since the 2005-2006 and 2006-2007 budget speeches, new fiscal measures have been introduced and others have been improved. For example:

- introduction of a capital tax credit of 5% for manufacturing investments and of 15% for investments in the forest sector ($116 million for 2007);
- extension of tax credits for secondary and tertiary processing activities in the resource regions ($69 million for 2007);
- introduction of a refundable tax credit of 40% for the construction of public access roads and bridges in forest areas ($19 million for 2007);
- permanent renewal of and improvement to the tax credit for on-the-job training periods ($27 million for 2007);
- tax credit of 25% of salaries for major employment-generating projects in the information technology sector ($6 million for 2007).

TAX ASSISTANCE FOR BUSINESSES – 2006 AND 2007
(Millions of dollars)

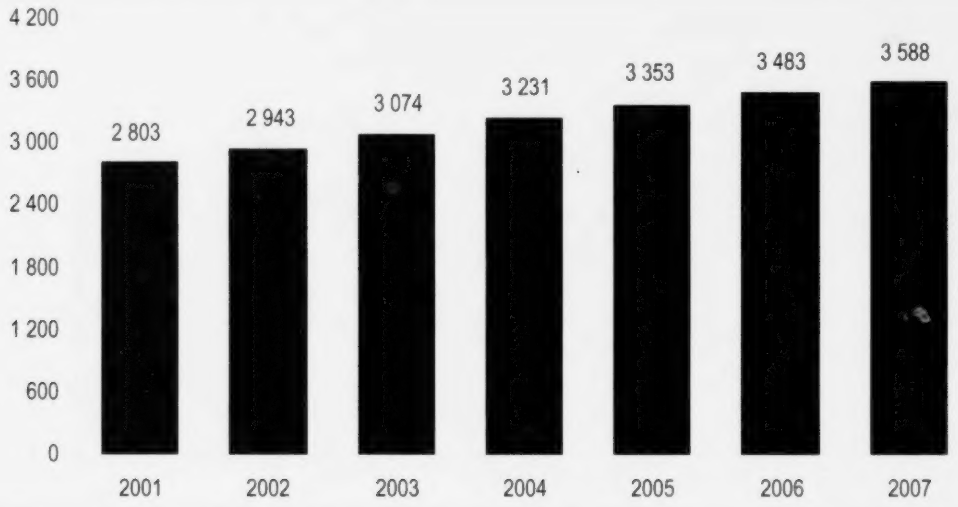
	2006	2007
Corporate taxes		
• Scientific research and experimental development	622	638
• Investment	393	433
• New economy	268	266
• Regions	159	168
• Culture	129	131
• Other	68	75
Subtotal	***1 639***	***1 711***
Capitalization of businesses[1]	***190***	***184***
TAX ASSISTANCE FOR BUSINESSES	**1 829**	**1 895**

1 Tax assistance recorded under personal income tax.

☐ CONSUMPTION TAXES

The cost of tax expenditures relating to consumption taxes has risen consistently from 2001 to 2007, with annual growth averaging 4.2%. This growth essentially reflects the rise in spending on goods and services during this period.

CHANGE IN TAX EXPENDITURES RELATING TO CONSUMPTION TAXES – 2001 TO 2007
(Millions of dollars)



Introduction

Over the years, the government has introduced numerous fiscal measures into Québec's tax system with a view to granting tax relief to certain groups of individuals or businesses. These tax preferences, commonly known as "tax expenditures", enable the government to achieve certain strategic objectives at the economic, social, cultural or other levels by promoting certain types of behaviour or activities or by helping specific groups of taxpayers.

This document provides relevant information on the tax expenditures of Québec's tax system and quantifies the cost of each of them to the government.

In this regard, it should be noted that an accounting of tax expenditures does not constitute an assessment of the government's fiscal policy, or an assessment as to whether or not the preferential measures of Québec's tax system should be maintained.

This document is divided into two parts. The first deals with the definition and cost of tax expenditures and has two sections.

— The first section provides a definition of tax expenditures and describes their objectives. It also details the method used to determine tax expenditures.

— The second section focuses on the items relating to estimates of the cost of tax expenditures. In particular, tax expenditures relating to personal and corporate taxes, and consumption taxes, are listed along with their cost.

Part II, which has three sections, briefly describes each tax expenditure. The first section deals with tax expenditures relating to the personal tax system, the second with tax expenditures relating to the corporate tax system and the third with tax expenditures relating to the consumption tax system.

It is important to note that the descriptions of the fiscal measures in this document are intended solely to give a general idea of how these measures operate. These descriptions do not constitute a legal interpretation and do not replace the relevant legislative and regulatory provisions.

Part I

Definition and cost of tax expenditures

Part I

Table of Contents

1. **WHAT ARE TAX EXPENDITURES? 1**
  - ***1.1 Using the tax system to achieve certain objectives 1***
  - ***1.2 Definition of tax expenditures 3***
    - 1.2.1 The basic tax system 4
    - 1.2.2 Types of tax expenditures 9
  - ***1.3 Achieving the objectives of the tax system 12***
    - 1.3.1 Objectives of the tax system 12
    - 1.3.2 Categories of taxpayers covered by tax expenditures 13
    - 1.3.3 Impact of tax expenditures on the objectives of the tax system 14
    - 1.3.4 Importance of the tax environment 15

2. **THE COST OF TAX EXPENDITURES 17**
  - ***2.1 Methodology 17***
  - ***2.2 Interpretation of estimation results 21***
  - ***2.3 Portrait of tax expenditures in 2006 .... 24***
    - 2.3.1 Personal income tax 25
    - 2.3.2 Corporate taxes 26
    - 2.3.3 Consumption taxes 27
  - ***2.4 Change in the cost of each tax expenditure from 2001 to 2007 .... 29***
  - ***2.5 Additional information 60***
    - 2.5.1 Refundable tax credit for home maintenance of an older person 60
    - 2.5.2 Impact of the taxation choice on economic growth 63

LIST OF TABLES, ILLUSTRATIONS AND CHARTS 69

1. WHAT ARE TAX EXPENDITURES?

1.1 USING THE TAX SYSTEM TO ACHIEVE CERTAIN OBJECTIVES

The main purpose of the tax system is to generate enough revenue to finance the government's expenditures, namely expenditures for health, education, social assistance and all other budgetary expenditures.

As Table 1 below shows, taxes are the main source of government financing. For fiscal year 2005-2006, tax revenues represented 79.2% of the government's own-source revenue.

Table 1

THE GOVERNMENT'S OWN-SOURCE REVENUE

(Millions of dollars)

	2005-2006
Individuals	
• Income tax	16 466
• Contributions to the Health Services Fund	190
Corporation	
• Income tax	2 563
• Tax on capital	1 306
• Employer contributions to the Health Services Fund	4 857
• Other	918
Consumption taxes	12 438
Subtotal – tax revenues	**38 738**
Other revenues	
• Duties and permits	1 137
• Miscellaneous revenue	1 331
• Revenue from government enterprises	4 554
• Consolidated organizations and specified-purpose accounts	3 152
Total – own-source revenue	**48 912**
Tax revenue/own-source revenue	*79.2%*

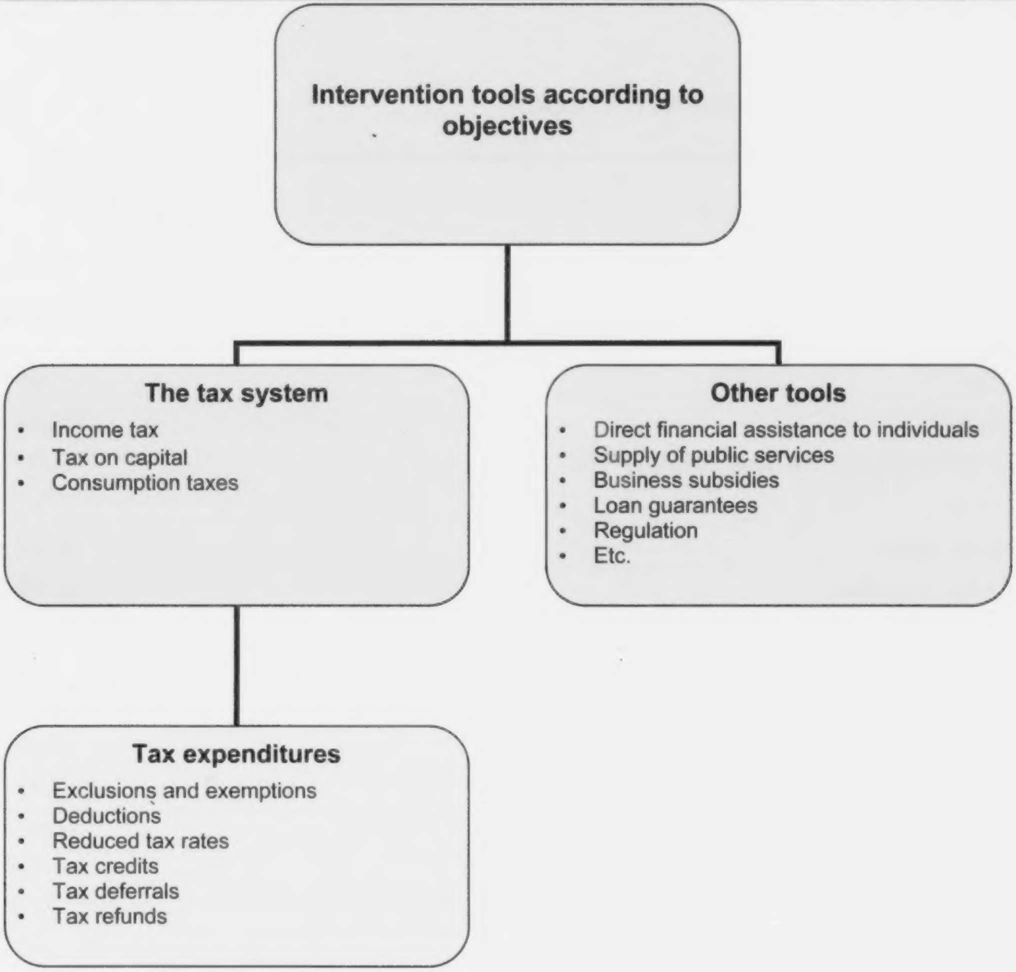
Tax expenditures act through the tax system. They are one of the mechanisms at the government's disposal to offer advantages to individuals and businesses to achieve certain strategic objectives at the economic, social, cultural or other levels.

The wide variety of tax expenditures underscores their flexibility and points to a broad range of fields of application, as well as an extensive array of economic and fiscal impacts.

As the following illustration shows, tax expenditures can be used in place of direct financial assistance. For example, to support companies' R&D activities, the government provides a refundable tax credit for R&D expenditures.

Illustration 1

INTERVENTION TOOLS AVAILABLE TO THE GOVERNMENT


Intervention tools according to objectives
The tax system
Income tax
Tax on capital
Consumption taxes
Other tools
Direct financial assistance to individuals
Supply of public services
Business subsidies
Loan guarantees
Regulation
Etc.
Tax expenditures
Exclusions and exemptions
Deductions
Reduced tax rates
Tax credits
Tax deferrals
Tax refunds

1.2 DEFINITION OF TAX EXPENDITURES

Tax expenditures generally refer to measures that reduce or defer taxes payable by taxpayers. They can take many forms, in particular income not subject to tax, deductions in calculating income, tax credits, tax deferrals or tax exemptions.

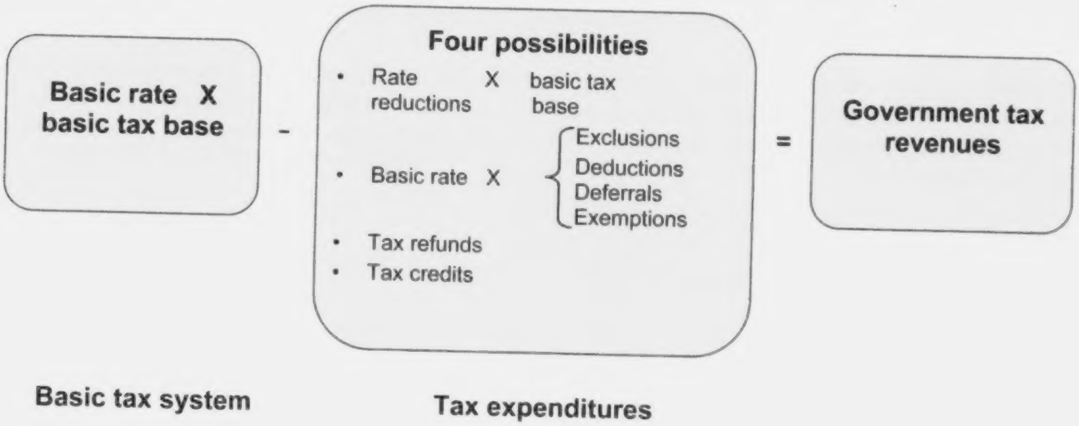
Tax expenditures are designed to influence certain behaviour or activities, as well as to assist certain groups of taxpayers in a particular situation. The government uses tax expenditures to support economic development, encourage retirement savings, stimulate R&D, support families financially, provide an incentive to work and encourage charitable donations.

The concept of the tax expenditure accordingly refers to fiscal policy choices by which the government willingly agrees to forego some of its tax revenue to achieve its objectives. For this reason, it is important not to confuse tax expenditures with the means some taxpayers use to avoid paying tax, such as tax evasion or tax fraud.

☐ OPERATION OF TAX EXPENDITURES

The terms and conditions of tax expenditures are defined in the tax laws. They concern either the rate structure, for instance by granting preferential rates for certain types of activities, or the tax base, by allowing certain deductions. The following illustration shows how the tax expenditures alter the basic tax system and affect the government's tax revenues.

Illustration 2
OPERATION OF TAX EXPENDITURES


Basic rate X basic tax base
-
Four possibilities
Rate reductions X basic tax base
Basic rate X Exclusions, Deductions, Deferrals, Exemptions
Tax refunds
Tax credits
=
Government tax revenues
Basic tax system
Tax expenditures

1.2.1 The basic tax system

Tax expenditures are determined according to a process that involves:

> "[...] a classification exercise which amounts to setting a distinction, in the tax provisions in effect, between those that conform to a standard or reference and a series of provisions that are exceptions to such standard."[5]

Tax expenditures are thus exceptions to a standard or a reference that is defined as the basic tax system. Any measure seeking to confer tax relief that diverges from this basic tax system constitutes a tax expenditure. Accordingly, to establish tax expenditures, the basic tax system must first be defined.

☐ DETERMINATION OF THE BASIC TAX SYSTEM

The basic tax system can be defined as the set of structural characteristics on which the tax system is based, before the application of any preferential measure.

The basic tax system accordingly encompasses the most fundamental elements of the tax system, namely the overall tax base, the rate structure, taxpayers covered (the taxation unit) and the taxation period. These items are generally part of the basic tax system and, consequently, are not considered tax expenditures.

Preferential measures constitute tax expenditures intended, according to the government's specific objectives, to provide tax relief in order to support certain groups of taxpayers or encourage certain activities the government considers desirable.

Generally, the definition of the basic tax system poses no particular problem. As a result, a consensus can be struck on most the elements that make up this system.

In some cases however, fiscal measures can be interpreted in various ways and, depending on the perceptions, opinions can vary as to the elements to include in the basic tax system. Accordingly, there is a subjective component to the exercise and choices must then be made.[6]

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[5] Extract from the tax expenditure definition process provided by the Organization for Economic Cooperation and Development (OECD). *Tax Expenditures: Recent Experiences*, Organization for Economic Cooperation and Development, 1996.

[6] In the United States, the government is required by law to produce a list of tax expenditures in its budget, though without specifying the basic tax system. To make allowance for certain conceptual difficulties, the American government uses two different basic tax systems to determine tax expenditures.

Therefore, some might decide to define a very restrictive basic tax system to have as broad a definition of tax expenditures as possible. In this case, even measures used to comply with the most basic characteristics of the tax system must be considered tax expenditures. For instance, it could be decided to consider the basic tax credit designed to recognize the essential needs of a taxpayer as a tax expenditure rather than a component of the basic tax system.

Opinions can also differ on the treatment of the tax credit for child care expenses. Some may consider that child care expenses are incurred to earn income. Others instead might maintain that they are consumption expenditures and that the tax assistance granted is a particular benefit designed to reduce their cost to families. In the first case, the tax credit would be considered a component of the basic tax system and in the second, a tax expenditure.

❑ DESCRIPTION OF THE BASIC TAX SYSTEM

The following pages describe the basic tax system that has been used to identify the tax expenditures of each of Québec's major tax laws. The choices made generally reflect the predominant point of view found in this type of study.

This document covers the following eight tax fields:

- ***regarding individuals***
  - income tax.
- ***regarding corporations***
  - income tax;
  - tax on capital;
  - employer contribution to the Health Services Fund.
- ***regarding consumption taxes***
  - Québec sales tax;
  - tax on insurance premiums;
  - fuel tax;
  - tax on alcoholic beverages.

— Personal and corporate income tax

• *Tax base*

The tax base is income in the broad sense and includes, among other things, employment income, business income, income from property and investments (rents, interest, dividends) and capital gains. The measures allowing the deduction of current expenses incurred to earn such income are also considered part of the basic tax system. For instance:

- for employment income, the deduction of expenses incurred by certain workers in carrying out their duties (workers paid by commission);

- for business income, the deduction for depreciation representing the loss of economic value of assets, i.e. the depreciation expenses normally allowed according to generally accepted accounting principles. Where tax depreciation is greater (e.g.: accelerated depreciation), the extra amount is considered a tax expenditure.

• *Tax rate structure*

The personal income tax system consists of a tax rate structure that rises by income bracket. The tax table is a component of the basic tax system. Moreover, the basic tax credit intended to recognized essential needs is also incorporated into the basic tax system since it applies to all taxpayers and favours no particular group of taxpayers. It is equivalent to a zero tax rate on the lowest income bracket.

Turning to the corporate tax system, the basic system consists of the general tax rates in effect for active business income or passive or investment income. Any measure resulting in a reduction of the general tax rate, such as the deduction allowed for small businesses as of 2006 on the first $400 000 of income from an eligible business, is treated as a tax expenditure.

• *Taxation unit*

In the personal income tax system, the main taxation unit is the individual. In Québec, income tax applies to natural persons considered individually. However, special provisions broaden this concept to households, in particular those that allow for the presence of dependent children. For this reason, some fiscal measures, like tax credits transferred from one spouse to another, are considered tax expenditures.

As for the corporate tax system, the taxation unit is the incorporated business. In the case of corporations, the choice of a taxation unit is more difficult since the current system is based on a variety of concepts: the establishment, the legal entity consisting of a corporation or a group of related corporations. However, of these, the incorporated business is the most commonly used notion. For instance, a corporation can deduct losses it has suffered in one activity sector against the profits it has made in another sector. However, losses suffered by one corporation cannot be deducted against the profits of another corporation which is part of the same group.

- ***Taxation period***

The taxation periods for individuals and corporations are the calendar year and the fiscal year respectively. Measures allowing business and investment losses to be carried forward are also considered to be part of the basic tax system. It is generally recognized that business and investment income must be considered over a number of years to allow for the cyclical and multi-year nature of these types of income. Accordingly, all other deferral measures, such as transactions which consist in transferring property with no tax impact (rollovers) and reserves are considered tax expenditures.

- ***Inflation***

Income tax applies to nominal income, i.e. without taking inflation into account. For this reason, measures designed to reduce tax payable to make allowance for inflation, such as the partial inclusion of capital gains, are not considered part of the basic tax system, but rather as tax expenditures.

- ***Structural characteristics***

The basic tax system includes certain structural features of the overall tax system which reduce or eliminate double taxation of income. For instance:

— in the personal income tax system, the taxation details relating to dividends allow for taxes already paid at the corporate level when a dividend is paid to a shareholder;

— in the corporate tax system, the non-taxation of inter-corporate dividends is designed to prevent profits already taxed in one taxable Canadian corporation from being taxed again when received as dividends by another corporation.

— Tax on capital

The taxation unit is the incorporated business.

The basic system consists of the general rate of the tax on the paid-up capital of the corporation at the end of its fiscal year. The rate applicable to financial institutions is also considered part of the basic structure. Paid-up capital is determined from the financial statements and is calculated according to generally accepted accounting principles.

For the purposes of the tax on capital, insurance companies are subject to a compensatory tax in lieu of the tax on capital, which depends on the insurance premiums they collect. The rate of this tax is 2% for insurance policies of persons and 3% in other cases. The 3% is considered part of the basic system, while the difference between it and the 2% rate is considered a tax expenditure.

— Employer contribution to the Health Services Fund

The taxation unit is the employer (private and public sectors).

The table of contribution rates is considered part of the basic tax system.

The tax base corresponds to the wages paid to employees in Québec, i.e. the gross employment income for income tax purposes, including the value of taxable benefits granted to them.

— Québec sales tax

The Québec sales tax (QST) is a value-added tax collected on a broad base of goods and services. It applies to taxable sales at all stages of production and commercialization and provides businesses with rebates of the tax paid on their inputs (ITRs). Accordingly, it is a tax on final consumption of goods and services.

The tax generally applies according to the destination principle, i.e. it only applies to goods and services consumed in Québec and consequently:

— imports are taxed;

— exports are exempted.

The tax rate is part of the basic tax system. This rate applies to a tax base including the goods and services tax (GST).

— **Other consumption taxes**

As for other consumption taxes, namely the tax on insurance premiums, the fuel tax and the tax on alcoholic beverages, tax expenditures are identified in relation to each of the statutes under which these taxes are levied.

1.2.2 Types of tax expenditures

☐ PERSONAL AND CORPORATE INCOME TAX

Tax expenditures regarding income tax can be divided into five major categories:

- exclusions and exemptions;
- deductions;
- reduced tax rates;
- tax credits;
- tax deferrals.

— **Exclusions and exemptions**

This is income not subject to tax, or only partially subject (e.g.: the guaranteed income supplement, strike benefits or gains realized on the disposition of a principal residence), or persons (individuals or businesses) who are exempt (e.g.: non-profit organizations and unions).

— **Deductions**

These are the items that reduce income subject to tax. For instance: deductions concerning contributions to a registered retirement savings plan (RRSP), expenditures made to earn investment income and eligible business investment losses.

The value of the tax expenditure attributable to exclusions, exemptions and deductions depends on the taxpayer's marginal tax rate. Accordingly, the higher the taxpayer's marginal tax rate, the more valuable the tax expenditure associated with the exclusion, exemption or deduction.

Moreover, a taxpayer's taxable income may not be high enough to benefit fully from a deduction he is entitled to. In such a case, the taxpayer will only use part of the deduction and the value of the tax expenditure for the government is reduced accordingly.

— Reduced tax rates

In some cases, the tax system allows tax rates that are lower than the generally applicable rate. The value of this form of tax expenditure does not depend on the marginal tax rate, but only on whether or not the taxpayer can benefit from reduced tax rates.

— Tax credits

Tax credits are items which, rather than reducing income subject to tax, generally reduce tax payable. Some tax credits are non-refundable while others are refundable.

• *Non-refundable tax credits*

These tax credits can be applied only to reduce tax payable. Examples include dividend tax credits, tax credit with respect to age, tax credit for tuition or examination fees and tax credit for charitable donations. However, the unused portion of some of these tax credits can be carried forward, i.e. it can be used to reduce tax payable for another year, as is the case with the tax credit regarding interest paid on a student loan.

The value of the tax expenditure depends on the amount of a taxpayer's tax payable. A taxpayer's taxable income may not be sufficient to fully utilize these tax credits. For instance, if a taxpayer is eligible for a tax credit of $2 000 and has tax payable of $1 500, the tax expenditure associated with the tax credit corresponds to $1 500 for the government. It would be the maximum amount if the taxpayer's tax payable was at least $2 000.

• *Refundable tax credits*

These tax credits are refundable because, if their value exceeds the taxpayer's tax payable, the excess is refunded to him. Examples include the refundable tax credit for child assistance, the refundable tax credit for the QST, the property tax refund and the refundable tax credit for scientific research and experimental development.

As a result, for individuals, these credits resemble transfer payments more than tax reductions. For instance, the refundable tax credit for the QST is granted to all low-income taxpayers, even those that have no tax payable.

Generally, all tax credits offered to corporations are refundable and hence may be likened to direct financial assistance whose objective is to encourage certain activities.

— Tax deferrals

Tax deferrals are amounts that are not included in the calculation of income for the year but are included in the calculation of a future year. An example is taxation of capital gains at the time of realization. The value of the tax expenditure associated with tax deferrals, like the situation in the case of deductions, depends on the taxpayer's marginal tax rate at the time when the items covered by a tax deferral are used. For instance, the tax expenditure associated with payments to an RRSP depends on the difference between the taxpayer's marginal tax rate at the time of the payment and that applicable at the time the amounts saved are withdrawn.

☐ OTHER CORPORATE TAXES

As for the other forms of tax to which corporations are subject, namely the tax on capital and the employer contribution to the Health Services Fund, tax expenditures mainly consist of exemptions or deductions for certain types of corporations or activities. For example, there is the exclusion of the first $1 million of paid-up capital in the case of small and medium-size enterprises.

☐ CONSUMPTION TAXES

Concerning consumption taxes, tax expenditures consist mainly of exemptions for certain goods and services and, in other cases, refunds of tax paid. For instance, the QST system includes many specific exemptions and may also provide a partial QST rebate to certain organizations, such as charities, universities and hospitals.

Tax expenditures can also take the form of reduced tax rates, as is the case with automobile insurance premiums and fuel purchased in some regions. For instance, when an automobile insurance premium is paid, the purchaser pays a tax of 5% rather than the general rate of 9% on insurance premiums. The value of the corresponding tax expenditure for the government is equal to the amount obtained by multiplying the reduction in the rate of the tax by the amount of the insurance premium.

TWO FORMS OF EXEMPTION IN THE QST SYSTEM

Zero-rated goods and services: no QST is collected on sales of zero-rated goods and services and the seller may claim a rebate of the tax he paid on his purchases, so that ultimately no QST is borne by the consumer. Zero-rated goods and services include basic groceries, prescription drugs and medical devices.

Exempted goods and services: no QST is collected on sales of exempted goods and services, but the seller may not claim a rebate of the tax he paid on his purchases. Since the seller bears the QST on his purchases, exemption of certain goods and services allows only partial relief from the QST. Exempt goods and services include rental accommodation, health, education, child care and personal care services as well as the standard municipal services.

1.3 ACHIEVING THE OBJECTIVES OF THE TAX SYSTEM

Tax expenditures are an instrument that enables the government to achieve various objectives.

1.3.1 Objectives of the tax system

The first objective of a tax system is to collect enough stable revenue to fund budgetary expenditures. In formulating fiscal policy, many other objectives can also be considered.

These other objectives are divided into two categories: general objectives, namely the usual criteria considered in any tax system, and specific objectives that take some of a society's choices and preferences into consideration.

☐ GENERAL OBJECTIVES

General objectives are:

- vertical equity, according to which a taxpayer with a greater ability to pay than another should be taxed more heavily;
- horizontal equity, which means that the tax system should tax identically taxpayers or families with the same characteristics;
- neutrality, meaning that the tax system should tax neutrally or identically the activities of economic agents, to avoid altering their behaviour as much as possible;
- simplicity, so that the system is easy to understand, comply with and administer.

☐ SPECIFIC OBJECTIVES

The economic and social changes of recent decades have influenced the formulation of fiscal policy in Québec and elsewhere. In addition, market globalization, freer trade, the demographic situation and the orientation of economic and social policies have a definite impact on the tax system.

These changes have led to the determination of new objectives, such as ensuring that the tax system:

- makes allowance for the particular situations of certain categories of taxpayers, such as families, older persons, persons engaged in studies or in training and disadvantaged persons;
- is competitive enough to maintain the competitive nature of the economy and encourage economic agents to reside and produce in Québec.

In this regard, it should be mentioned that one specific objective can be chosen at the expense of another. An example of this is the trade-off that must be made between higher taxation of middle and high-income taxpayers and competitiveness. While the progressive nature of a tax system redistributes wealth in society, if the tax system is too progressive, the economy's competitiveness, job creation and the incentive to work can be hampered.

To achieve the specific objectives of the tax system, tax assistance can be granted depending on:

- specific features of individuals or businesses (e.g.: family situation, age, level of income, size of business, etc.);
- the source of income (e.g.: pension income, strike benefits, capital gains, etc.);
- how income is used (e.g.: charitable donations, scientific research and experimental development, retirement savings, etc.).

1.3.2 Categories of taxpayers covered by tax expenditures

Québec's tax expenditures cover a variety of categories of taxpayers. Here are some examples:

- for individuals: low-income taxpayers, families with children, older persons, workers, owner-occupants of a residence, students, artists, members of a religious community, native people and investors;
- for corporations: small and medium-size enterprises located in the resource regions, corporations in the mining sector, the farm sector, the manufacturing sector, the new information and communications technologies sector, the film and television industry and cooperatives.

However, caution is advised in identifying the target client group of a particular measure. First, a distinction must be made between the objective sought at implementation, the means used to achieve it and the targeted groups of taxpayers. In some casts, the measures target a very specific category of taxpayers in order to support them. For example, the refundable tax credit for child assistance provides tax assistance for families. Other measures benefit more than one category of taxpayers. For example, individuals benefit directly from certain measures designed to support businesses. While the main objective of the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins is to support the financing of businesses and cooperatives in the resource regions of Québec, it is individuals, namely those who acquire the shares, who claim the tax credit. In this case, the tax expenditure benefits both businesses and individuals.

Second, the impact of taxes, i.e. the ultimate effect of a tax measure from an economic point of view, is also a factor to be considered. For instance, regarding the tax expenditures applicable to corporations, the real beneficiaries may be economic agents other than the business itself. Since the tax expenditure reduces the costs of the business, the tax benefit may spread to consumers in the form of reduced prices, workers in the form of pay increases or shareholders through a higher return on their investment.

1.3.3 Impact of tax expenditures on the objectives of the tax system

Tax expenditures can have an impact on the fairness, neutrality, simplicity and other objectives of the tax system.

☐ FAIRNESS

Tax expenditures have consequences not only on the tax base and consequently on government revenues, but also on the fairness of the tax system.

Tax expenditures affect the distribution of the tax burden and the progressivity of the system because they provide tax relief for certain groups of taxpayers compared with others who do not use them. At times, tax expenditures will increase progressivity while at others they will reduce it especially if they are granted as a tax credit rather than a deduction. Moreover, the effective tax rates applicable to each taxpayer and their relative tax burden can differ depending on their socio-economic characteristics, their activities, their behaviour and the choices they make.

☐ NEUTRALITY

Since tax expenditures are preferential measures, they lead to changes in the choices made by taxpayers. Since they are designed to encourage certain types of behaviour or activities in relation to others (for instance, retirement savings, charitable donations or education), they influence, to a certain degree, the decisions made by individuals and corporations, notably concerning consumption, investment and the supply of labour. Accordingly, pursuing specific objectives means that tax expenditures can directly affect the neutrality of the tax system.

☐ SIMPLICITY

Tax expenditures add complexity to tax legislation, which causes an increase in compliance costs for taxpayers and mandataries, as well as in administration costs for the government. These latter costs must, however, be compared with those that would arise from the implementation of an identical direct financial assistance program.

1.3.4 Importance of the tax environment

The Québec government and the federal government collect income taxes, taxes on capital and consumption taxes.[7] Accordingly, it is important, for the two governments, to keep the overall system as simple as possible to avoid increasing administration costs for taxpayers and mandataries. In this context, harmonization of fiscal measures is generally desirable.

Historically, Québec has avoided diverging too far from the federal system in order not to make the tax system as a whole overly complicated. That is why a number of tax expenditures applicable under Québec legislation stem from harmonization with federal tax expenditures. For example, with but few exceptions, the QST system is harmonized with the GST.

In some cases, Québec had decided to introduce tax expenditures adapted to its preferences. These include certain deductions (deduction for workers), certain tax credits (refundable tax credit for child assistance, refundable tax credit granting a work premium, property tax refund), certain tax exemptions (zero-rating of books) and certain measures intended for investors (tax credit for the acquisition of shares of Capital régional et coopératif Desjardins, improved tax treatment for mining exploration expenses) or for businesses (refundable tax credit for R&D, refundable tax credit for on-the-job training and refundable tax credit for Québec film and television production).

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[7] Property taxes are also collected by local governments.

2. THE COST OF TAX EXPENDITURES

This section begins with a description of the methodology used to estimate the cost of tax expenditures and the items to consider in interpreting the cost of tax expenditures.

It follows up with a portrait of tax expenditures in 2006 and the change in the cost of each tax expenditure from 2001 to 2007.

2.1 METHODOLOGY

☐ SOURCES OF DATA

The information automatically collected by the ministère du Revenu from tax returns and tax forms filed by taxpayers and mandataries represents the main source of data. For many measures, federal tax data banks have also been used.

For some tax expenditures having a more limited application, the data are not automatically collected by the ministère du Revenu. In order to estimate the cost, the ministère du Revenu made a special compilation based on a sample of tax returns or tax forms.

Other sources of information have also been used where tax data were insufficient or non-existent. Such is the case, among others, for income not subject to income tax that, in general, does not have to be indicated on tax returns, so that the relevant information must be found elsewhere in order to estimate the cost. The financial reports of governments (public accounts), Statistics Canada, specialized information on client groups covered by fiscal measures and other government departments or organizations are the main sources of other data used.

☐ METHOD OF ESTIMATION

There are three main methods for calculating the cost of tax expenditures. The receipt-loss method consists in calculating ex post the amount of the revenue shortfall resulting from the application of a specific measure. The receipt-gain method consists in calculating ex ante the anticipated increase in receipts in the event of the elimination of the benefit. The latter method differs from the former in that it implies an assessment of probable behaviour in reaction to the change. Lastly, the expenditure-equivalent method consists in calculating how much it would cost to offer a monetary benefit equivalent to a tax expenditure through direct spending, assuming, as in the case of the tax receipt-loss method, that behaviour is unchanged.

As is done in all countries of the Organization for Economic Cooperation and Development (OECD), the receipt-loss method has been adopted for the purposes of this document.[8]

— Deductions, tax credits and reduced rates

The cost of most tax expenditures related to personal and corporate income tax was calculated using micro-simulation models built from a representative sample of data taken from tax returns. To assess the cost of the tax expenditure, the method involves recalculating the taxes that would have been paid by each taxpayer if the tax expenditure in question had not existed. Overall, the difference between the taxes payable in the absence of the expenditure and the taxes actually paid gives the revenue shortfall for the government attributable to this tax expenditure.

— Exclusions and exemptions

Not all income not subject to tax is indicated on tax returns. Accordingly, it is not always possible to directly recalculate the tax that would otherwise have been paid by those benefiting from such income. Therefore, to estimate the cost of these measures, it was necessary to establish what would have been the taxable income and the tax rate if the income had been subject to tax. For instance, for the non-taxation of lottery and gambling earnings, the revenue shortfall was calculated by redistributing the total amount of realized earnings among all taxpayers who filed a tax return, whether they are taxable or not. This is equivalent to applying the average marginal rate of all taxpayers to such earnings.

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[8] For methodological reasons, all the countries studied in the OECD report use the receipt-loss method. *Tax Expenditures: Recent Experiences*, Organization for Economic Cooperation and Development, 1996.

— Tax deferrals

The particular feature of deferred income (tax deferrals) is that it is taxed in the future. For the purposes of the calculation of the revenue shortfall for the government, the long-term cost assessment of these measures is a complex and subjective exercise.

The cost of certain measures involving a tax deferral could have been estimated by calculating the interest not earned because of such deferral (example: payment into an RRSP) For the sake of simplicity, this paper uses a single method to estimate the cost of tax deferrals, namely annual cash flow. This method makes it possible to assess the tax receipts the government has not collected for the year being considered, namely the net effect of the tax value of deductions claimed in the current year because of a tax deferral and of amounts reincorporated into income. This method generally gives a fairly accurate idea of the cost of tax deferral measures and has the following advantages:[9]

- the tax data used for the estimates are known and available, which avoids having to make assumptions on the time and value of the eventual payment of deferred taxes;
- the estimates of the cost of deferrals are comparable to those of other tax expenditures (deductions and tax credits) and can be added over many periods without risk of double counting.

Because of a lack of data and assessment problems, it is not always possible to estimate the cost of some tax deferrals. For instance, the cost of measures concerning the deferral of capital gains, more specifically the taxation of capital gains when they are realized and the deferral of capital gains on farm or fishing property transferred to children, cannot be assessed.

— Tax expenditures relating to the Québec sales tax

The cost of tax expenditures related to the Québec sales tax (QST) has been estimated using various sources of information. Most of the estimates are based on the input-output tables produced by Statistics Canada. These tables constitute the most detailed description of Québec's economy, reflecting models of exchanges of goods and services by type of industry and consumer. The Observatoire économétrique of the Institut de la Statistique du Québec has estimated the cost, for the reference years, by calculating the various tax bases to which the QST would be applied if the corresponding goods were not exempted or zero-rated. The reference years (2001 and 2002) correspond to the last years for which the final version of the input-output tables is published. An economic model is then built to project the estimate obtained. This makes it possible to estimate the cost for all the years shown.

In other cases, the data come from the returns filed with the ministère du Revenu by mandataries (e.g.: partial rebates granted to public service bodies), the ministère de l'Éducation, du Loisir et du Sport du Québec (in the case of a tax expenditure relating to tuition fees) as well as from Canada Mortgage and Housing Corporation (e.g.: cost relating to the partial rebate of the QST when a new home is purchased).

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[9] The results may be different in certain circumstances. For instance, in the case of a substantial change in the level of economic activity or in certain types of behaviour, so that the amounts reincorporated into income are higher than the deferrals of the current year, the estimate on an annual cash flow basis may result in a negative cost (gain) for the government. In such situations, the estimate may not reflect the true long-term cost (in present value).

☐ PROJECTION OF THE TAX COST

The cost of tax expenditures is projected using various relevant economic indicators that are available. For instance, according to the expenditure considered, the projection may be based on the growth forecast for gross domestic product, population, employment, personal income, corporate earnings, inflation and household consumption expenditures. The cost of some tax expenditures which are more difficult to forecast is based on trends observed during recent years.

2.2 INTERPRETATION OF ESTIMATION RESULTS

The estimates and projections of the cost of tax expenditures given in this document do not take into account induced effects such as changes in the behaviour of economic agents or even changes in the level of economic activity itself.

The evolution of the tax system can bring about changes in the behaviour of taxpayers and, to a certain extent, in the level of economic activity. Consequently, estimates of the revenue shortfall do not necessarily correspond to the change in the government's tax receipts that would result from the elimination of a particular tax expenditure or group of tax expenditures.

☐ – CHANGES IN BEHAVIOUR

Generally, the elimination of a tax expenditure would lead individuals and corporations to alter their economic behaviour. For instance, more than 1.5 million Québec taxpayers contribute to an RRSP, in order to save for retirement, but also to reduce their tax payable, which produces a substantial shortfall for the government. In the absence of this tax incentive, these taxpayers could reorganize their affairs in favour of other retirement savings vehicles or other investments that offer tax benefits.

This example shows that the tax receipts obtained following such a change would be less than the shortfall estimated without changes in behaviour. Taking such effects into consideration would accordingly reduce the tax cost.

☐ IMPACT ON THE LEVEL OF ECONOMIC ACTIVITY

The estimates do not take into consideration the economic impact related to tax expenditures. The elimination of certain major tax expenditures could have an impact on growth of economic activity and, accordingly, change the overall level of tax receipts.

For instance, by eliminating the QST rebate for purchasers of new residential dwellings, the government could reap additional revenue. However, the increase in revenue would be reduced because of the impact of this measure on economic activity. The resulting increase in the price of new residential dwellings would reduce the purchasing power of consumers and impact their consumption.

☐ COST ESTIMATES AND PROJECTIONS

Where possible, the above methodology was used to estimate the cost of individual tax expenditures. To that end, each tax expenditure was estimated independently of the other tax measures, and all other elements were assumed to be unchanged.

It would be misleading to simply add the estimates of the individual costs in order to estimate the overall cost of tax expenditures, for the following two reasons:

- the progressivity of tax rates;
- the interaction of fiscal measures.

— Progressivity of tax rates

The personal income tax system has a progressive tax rate structure. Since a given taxpayer may enjoy a number of tax benefits, the ultimate effect is to lower his marginal tax rate. When tax expenditures are estimated one by one, i.e. at a lower marginal rate than if each taxpayer had not been entitled to any tax expenditure, no cumulative effect is taken into account. The addition of the estimates of the tax cost of each of them would thus under-estimate the real cost of all such measures.

As an example, take a taxpayer who has claimed many deductions and whose income is taxed at 20%. The simultaneous elimination of two deductions, each estimated independently at a rate of 20%, may in reality make the taxpayer taxable at the 24% rate applicable to the higher income bracket. Thus, the cost of the tax expenditure would be higher than the simple addition of the costs associated with the elimination of the two deductions. Similarly, the elimination of a deduction in the calculation of income could increase the shortfall regarding the other deductions claimed.

— Interaction of fiscal measures

Given that there are certain interactions among tax provisions, the sum of a certain number of tax expenditures calculated separately may be different from the result obtained from an overall calculation of the cost of the same set of tax expenditures. This is because, if the independently-calculated costs of various tax expenditures are added, there would be double counting, so that the cost obtained by simultaneously changing a set of measures would be over-estimated.

For individuals, the effect of certain groups of tax expenditures has been taken into account to reduce the impact of the interaction among their component measures.

IMPORTANT NOTE

Concerning tax expenditure estimates

Owing to the data sources and methodological considerations discussed above, the figures relating to tax expenditures are prone to estimate adjustments. Accordingly, the figures presented on the cost of tax expenditures provide an acceptable estimate of the foregone tax revenue arising from these measures.

Concerning the change in the cost of tax expenditures

The change in the cost of some tax expenditures may occasionally seem abnormal or indicate a decline whereas in actual fact the cost for the government has increased. It may happen that one tax expenditure is replaced by another or by a new budgetary expenditure program. By referring to Part II, the changes that account for the variations noted can be identified.

Some fiscal measures may apply to two different tax systems (for instance, personal income tax and corporate income tax). Generally, the tax expenditures have been classified according to the tax system under which the measures were implemented.

Within each tax system, tax expenditures have been classified in certain categories to organize and group the information presented, according to the objectives of the tax expenditures or the form they take.

Concerning the impact of changes in tax rates

At times, changes are made to the personal and corporate income tax systems to alter their rate structure. A change in tax rates can have an impact on the cost of certain tax expenditures, i.e. deductions, tax credits or reduced tax rates, even if the other items that determine this cost have not been changed. For instance, the 2005-2006 Budget Speech stipulates that, for 2006 to 2009, the general corporate tax rate will rise from 8.9% to 11.9%. In the case of a reduced tax rate, since the cost of the tax expenditure is estimated on the basis of the difference between the reduced rate and the general tax rate, the more the latter rises, the greater the tax expenditure.

Concerning exceptional years

For some years, the cost of a tax expenditure may seem very high or low compared to other years considered. There are many possible explanations: an exceptionally high amount of deduction or tax credit claimed by a small number of taxpayers, a particular set of economic conditions or an event in the world that has an impact on the use of certain fiscal measures. For instance, a plunge on the stock market may produce a substantial drop in the cost of the partial inclusion of capital gains.

2.3 PORTRAIT OF TAX EXPENDITURES IN 2006

Québec's tax system includes more than 280 tax expenditures. Of these, nearly 145 relate to the personal income tax system, more than 90 to the corporate tax system and 45 to the consumption tax system.

Despite the cautions referred to earlier, it is useful to add tax expenditures in order to illustrate their size. They will total $18.6 billion in 2006, the equivalent of 32% of the government's aggregate tax revenue.[10]

Of this amount, $12.6 billion relates to personal income tax, $2.5 billion to the corporate tax system and $3.5 billion to the consumption tax system,[11] accounting for 67.8%, 13.5% and 18.7% of all tax expenditures respectively.

Measures targeting individuals represent $15.5 billion of tax expenditures, compared to $3.1 billion for those that apply to corporations.

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[10] Preliminary results for the 2005-2006 Public Accounts.

[11] In the case of consumption taxes, the overall cost of tax expenditures should be very close to the sum of each of the measures. This is because, contrary to personal income tax measures, there is very little interaction between consumption tax measures, as the consumption tax system is linear rather than progressive. As a rule, a particular type of property is taxed at a specific rate, which is not affected by the taxation of another type of property. However, there are certain exceptions. For example, the exemption of health-care services has an effect on the rebate that can be claimed by hospitals. Nonetheless, this interaction is limited and the impact on the overall cost is not significant.

Table 2

OVERALL COST OF TAX EXPENDITURES IN 2006[1]

	Individuals	Corporations	Total	
	($ million)	($ million)	($ million)	(Share)
Personal income tax system	12 606	—	12 606	*67.8%*
As a percentage of personal income tax [2, 3]	—	—	*43.1%*	—
Corporate tax system	—	2 514	2 514	*13.5%*
As a percentage of corporate taxes [3, 4]	—	—	*20.7%*	—
Consumption tax system	2 865	618	3 483	*18.7%*
As a percentage of consumption taxes [3]	—	—	*21.9%*	—
TOTAL	**15 471**	**3 132**	**18 603**	***100.0%***
As a percentage of tax revenues [3]	—	—	*32.4%*	—

[1] Including fiscal measures announced before July 1, 2006.

[2] Including the personal contribution to the Health Services Fund.

[3] Before tax expenditures.

[4] Includes income tax, the tax on capital and the employer contribution to the Health Services Fund.

2.3.1 Personal income tax

Tax expenditures associated with personal income tax are designed mainly to keep the system progressive, provide support for families, increase the incentive to work and encourage retirement saving.

Many of these measures reflect the government's concern for the situation of low and middle-income households. Essentially, they are:

- the tax credit relating to the minimum complementary amount included in the determination of the basic tax credit;
- the refundable tax credit for child assistance;
- the refundable tax credit granting a work premium;
- tax credits for children who are students;
- the refundable tax credit for the Québec sales tax (QST);
- the refundable tax credit for child care expenses;
- the property tax refund.

Measures for retirement account for a substantial share of the costs of tax expenditures of the personal tax system. These include the measures relative to retirement savings plans and registered pension plans.

Some measures favour investors and businesses. The non-taxation of capital gains on a principal residence, partial inclusion of capital gains, and the lifetime $500 000 capital gains exemption on .shares of small businesses, farm or fishing property represent very substantial costs.

Among the other measures related to individuals are the non-taxation of worker's compensation, the tax credit for contribution to a labour-sponsored fund, the tax credit for donations and the non-refundable tax credit for medical expenses.

2.3.2 Corporate taxes

Most of the tax expenditures related to the corporate tax system consist of refundable tax credits. These tax credits have many objectives, namely encouraging R&D, supporting the new economy or fostering the economic development of the resource regions. They include:

- the tax credits for scientific research and experimental development;
- the tax credits for corporations located in designated new economy sites, including E-Commerce Place, Cité du multimédia and new economy centres;
- tax credits relating to the resource regions.

Other tax credits associated with the corporate tax system include the tax credit for Québec film and television production, the tax credit for the production of multimedia titles and the tax credit relative to the declaration of tips.

The remaining tax expenditures available to Québec corporations consist of general application measures, measures designed to stimulate investment, and tax holidays. They include the reduced tax rate for small businesses, reintroduced in 2006, the exemption of the first $1 million of paid-up capital, the capital tax credit regarding certain investments and tax holidays relating to major investment projects. The partial inclusion of capital gains is also among the most costly fiscal measures relating to the corporate tax system.

2.3.3 Consumption taxes

The main tax expenditures with respect to consumption taxes are related to the QST system. Certain property and services are zero-rated, such as basic groceries and financial services. Other property and services are exempted. The most important ones, in terms of costs, are rental accommodations and health-care services.

QST rebates are mostly granted to public service bodies: charities and certain non-profit organizations (NPO), schools, colleges and universities, as well as hospitals.

The reduction of the fuel tax rates and the tax exemption with respect to an individual policy of insurance of persons basically constitute the other important consumption tax measures.

Table 3

COST OF CERTAIN TAX EXPENDITURES IN 2006

(Millions of dollars)

Personal income tax	
• Registered retirement savings plan[1]	2 091
• Refundable tax credit for child assistance[2]	2 063
• Registered pension plan[1]	1 904
• Minimum complementary amount included in the determination of the basic tax credit	1 412
• Non-taxation of capital gains on a principal residence	834
• Refundable tax credit for the Québec sales tax	465
• Partial inclusion of capital gains	381
• Refundable tax credit granting a work premium	315
• Tax credit for medical expenses	313
• Deduction for workers	300
• Property tax refund	258
• Refundable tax credit for child care expenses	165
• Tax credit for donations	147
• Tax credit with respect to age	145
• Tax credit for tuition or examination fees	98
• Other	1 715
Subtotal: personal income tax	***12 606***
Corporate taxes	
• Tax credits for scientific research and experimental development	622
• Partial inclusion of capital gains	378
• Exemption of the first $1 million of paid-up capital	246
• Reduced tax rate for small businesses	150
• Tax credit for Québec film and television production	99
• Capital tax credit regarding certain investments	88
• Tax credit for corporations located in E-Commerce Place	74
• Tax credit for processing activities in resource regions	54
• Tax credit for the declaration of tips	51
• Tax credit relating to resources	44
• Tax credit for the production of multimedia titles	35
• Other	673
Subtotal: corporate taxes	***2 514***
Consumption taxes	
• Zero-rating of basic groceries	1 133
• Exemption of rental accomodation	404
• Exemption with respect to an individual policy of insurance of persons	303
• Exemption of health care services	176
• Zero-rating of financial services	160
• Zero-rating of books	45
• Other	1 262
Subtotal: consumption taxes	***3 483***
TOTAL	**18 603**

[1] Includes the deduction of contributions and the non-taxation of investment income, reduced by the taxation of withdrawals.

[2] Includes the supplement for handicapped children.

2.4 CHANGE IN THE COST OF EACH TAX EXPENDITURE FROM 2001 TO 2007

In 2001, the cost of all tax expenditures was $11.6 billion. For 2007, it will amount to $19.6 billion. There are many reasons for this increase, more particularly modifications to fiscal policy and the changes in Québec's economy.

Table 4

CHANGE IN OVERALL COST OF TAX EXPENDITURES FROM 2001 TO 2007[1]
(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007
Personal income tax							
• Support for families and work incentive	1 308	1 251	1 193	1 189	2 651	2 695	2 723
• Retirement assistance	1 662	760	4 459	3 883	4 090	4 201	4 405
• Progressivity	2 077	2 068	2 188	2 271	2 522	2 592	2 680
• Capitalization of businesses[2]	210	248	163	183	195	190	184
• Other	1 478	1 576	1 869	2 189	2 554	2 928	3 390
Subtotal: personal income tax	***6 735***	***5 903***	***9 872***	***9 715***	***12 012***	***12 606***	***13 382***
Corporate taxes							
• Tax credits and tax holidays	1 521	1 666	1 639	1 541	1 544	1 639	1 711
• General application measures	502	276	372	372	378	575	580
• Exemption of the first $1 million of paid-up capital from the tax on capital	-	-	82	189	266	246	230
• Other	36	50	54	49	50	54	64
Subtotal: corporate taxes	***2 059***	***1 992***	***2 147***	***2 151***	***2 238***	***2 514***	***2 585***
Consumption taxes							
• Zero-rated property and services	1 236	1 299	1 340	1 422	1 513	1 576	1 629
• Exempted property and services	619	646	674	715	746	781	812
• Tax rebates	341	372	417	427	422	423	423
• Other	607	626	643	667	672	703	724
Subtotal: consumption taxes	***2 803***	***2 943***	***3 074***	***3 231***	***3 353***	***3 483***	***3 588***
TOTAL	**11 597**	**10 838**	**15 093**	**15 097**	**17 603**	**18 603**	**19 555**

[1] Estimates for 2001 to 2004 and projections thereafter.

[2] The measures to promote the capitalization of businesses include the tax credit for contributions to a labour fund, the tax credit for the acquisition of shares of Capital régional et coopératif Desjardins, the deduction for the cooperative investment plan and the deduction for the acquisition of shares under the SME Growth Stock plan.

❑ PERSONAL INCOME TAX

Three main factors characterize the change in tax expenditures relating to personal income tax.

— First, as was the case elsewhere in Canada, there was a major decline in tax expenditures related to retirement in 2001 and 2002, mainly because of the sharp drop in stock market returns. For those two years, the decline in stock market returns reduced the value of the non-taxation of investment income in RRSPs and RPPs. The situation returned to normal beginning in 2003.

— Second, the cost of tax expenditures rose in 2005 as a result of the measures of the 2004-2005 Budget Speech. Indeed, the 2004-2005 Budget returned $1 billion to taxpayers by introducing the refundable tax credit for child assistance and the refundable tax credit granting a work premium and by simplifying the tax system (see box on page 35, Part I).

— Third, the deduction for workers, introduced in the 2005-2006 Budget Speech and enhanced in the 2006-2007 Budget, increased the cost of tax expenditures for 2006 and 2007. Close to $600 million will be allocated to this measure for 2007.

❑ CORPORATE TAXES

— Tax assistance for businesses[12]

From 1999 to 2002, the cost of tax expenditures relating to the corporate tax system and consequently tax assistance for businesses, increased significantly especially because of the introduction of new fiscal measures.

In the 2003-2004 Budget Speech and the 2004-2005 Budget Speech, the government reviewed the tax expenditures relating to the corporate tax system that resulted in stabilizing the increase in tax assistance for businesses for 2003 to 2005. This effort, which slowed the growth in the cost of tax expenditures, is estimated at $662 million for 2005, representing a decline of 28% compared to the total tax assistance prior to the tightening effort. Over the period 2003-2005, tightening measures led to savings of more than $1.4 billion.

For 2006 and 2007, tax assistance for businesses is rising and, with the implementation of new fiscal measures, will approach $1.9 billion for 2007.

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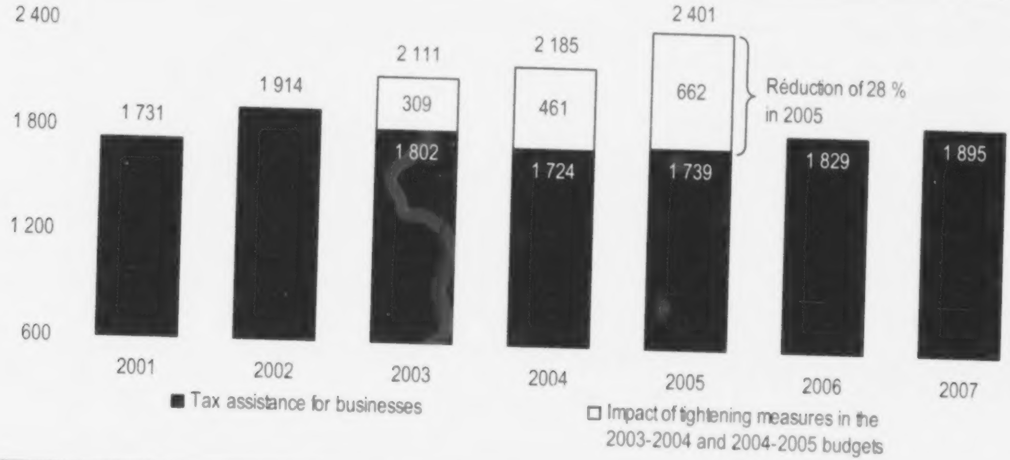
[12] A definition of tax assistance for businesses is given in the box on page 33, Part I.

Chart 1

CHANGE IN TAX ASSISTANCE FOR BUSINESSES – 2001 TO 2007

(Millions of dollars)



— Support for strategic economic development measures

In recent years, the government has determined that certain fields and activities are strategic and must be supported. The tax assistance allocated to them is estimated at a little more than $1.8 billion for 2006 and roughly $1.9 billion for 2007. The tax credits for scientific research and experimental development alone account for almost 35% of all tax assistance for businesses, corresponding to more than $620 million for 2006.

In addition, since the 2005-2006 and 2006-2007 budget speeches, new fiscal measures have been introduced and others have been improved. For example:

- introduction of a capital tax credit of 5% for manufacturing investments and of 15% for investments in the forest sector ($116 million for 2007);
- extension of tax credits for secondary and tertiary processing activities in the resource regions ($69 million for 2007);
- introduction of a refundable tax credit of 40% for the construction of public access roads and bridges in forest areas ($19 million for 2007);
- permanent renewal of and improvement to the tax credit for on-the-job training periods ($27 million for 2007);
- tax credit of 25% of salaries for major employment-generating projects in the information technology sector ($6 million for 2007).

TABLE 5

TAX ASSISTANCE FOR BUSINESSES – 2006 AND 2007

(Millions of dollars)

	2006	2007
Corporate taxes		
• Scientific research and experimental development	622	638
• Investment	393	433
• New economy	268	266
• Regions	159	168
• Culture	129	131
• Other	68	75
Subtotal	***1 639***	***1 711***
Capitalization of businesses [1]	***190***	***184***
TAX ASSISTANCE FOR BUSINESSES	**1 829**	**1 895**

[1] Tax assistance recorded under personal income tax.

TAX ASSISTANCE FOR BUSINESSES

Tax assistance for businesses is a sub-set of tax expenditures for corporations. It includes refundable tax credits, tax holidays and other fiscal incentives applicable to corporations.

Some tax expenditures relating to the personal income tax system, which seek to facilitate the capitalization of businesses, are also included in this sub-set, such as the tax credit for contributions to a labour fund.

For 2006, tax assistance for businesses is estimated at $1.8 billion. This figure is obtained by subtracting general application measures ($875 million) from tax expenditures for businesses ($2.7 billion).

CHANGE IN TAX ASSISTANCE FOR BUSINESSES – 2005 TO 2007

(Millions of dollars)

	2005	2006	2007
Tax expenditures for businesses			
• Corporate income tax system	2 238	2 514	2 585
• Capitalization of businesses[1]	195	190	184
TOTAL	**2 433**	**2 704**	**2 769**
Less: general application measures [2]			
• Harmonization with the federal tax system	378	575	580
• Exemption for SMEs of the first $1 million of paid-up capital from the capital tax	266	246	230
• Other measures[3]	50	54	64
Subtotal	***694***	***875***	***874***
TOTAL	**1 739**	**1 829**	**1 895**

[1] Includes the measures relating to the personal income tax system.

[2] Includes the measures that can generally be claimed by a very large number of corporations or harmonized with the federal tax system, such as reduced tax rates, exemptions, deductions, etc. (e.g.: partial inclusion of capital gains and deductibility of donations).

[3] Includes the following fiscal measures: tax credit relative to the declaration of tips and deduction regarding certain inventory vehicles.

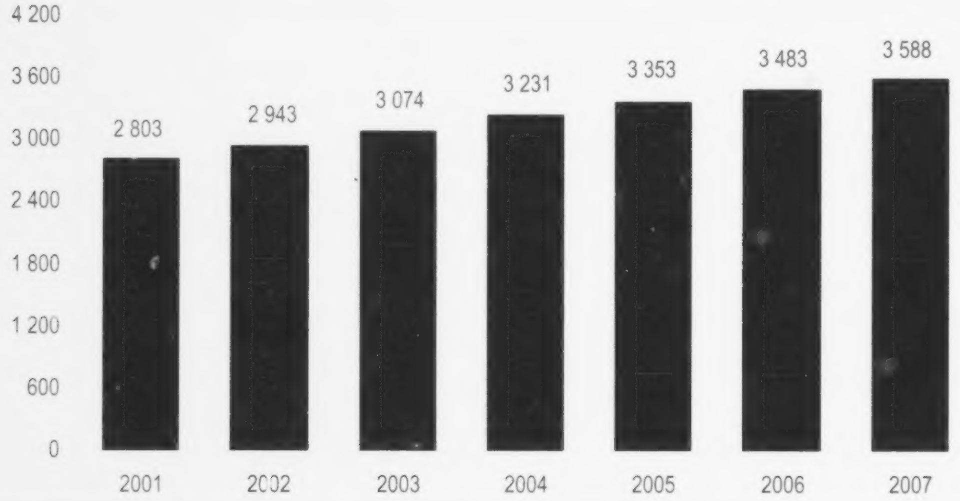
☐ CONSUMPTION TAXES

The cost of tax expenditures relating to consumption taxes has risen consistently from 2001 to 2007, with annual growth averaging 4.2%. This growth essentially reflects the rise in spending on goods and services during this period.

Chart 2

CHANGE IN TAX EXPENDITURES RELATING TO CONSUMPTION TAXES – 2001 TO 2007

(Millions of dollars)



Tables 6, 7 and 8 show the cost of each tax expenditure from 2001 to 2007.

IMPACT OF THE PRINCIPAL MEASURES AFFECTING INDIVIDUALS

2004-2005 BUDGET

The 2004-2005 Budget Speech announced a reform of the support granted to families as well as to low and middle-income workers. Moreover, to simplify the personal income tax system, a single tax system was put in place. These measures took effect in 2005 and have led to an increase in certain tax expenditures for 2004 and 2005.

— ***Support for families and work incentive***

The improvement in support for families, through the implementation of the refundable tax credit for child assistance, and the improvement in assistance for low and middle-income workers through the introduction of the refundable tax credit granting a work premium, have increased the cost of tax expenditures. This increase is partially offset by the decline in certain budgetary expenditures.

- The payment of the refundable tax credit for child assistance replaces two fiscal measures, namely non-refundable tax credits for dependent children under age 18 and the tax reduction for families, as well as a transfer program included in the expenditure budget, namely family allowances.
- The supplement for handicapped children replaces the Allowance for Handicapped Children transfer program.
- In addition, to maintain the non-refundable tax credit for dependent children regarding children age 18 or over who attend an education institution, the new non-refundable tax credit for adult children who are students was implemented.
- The refundable tax credit granting a work premium replaces and improves the Parental Wage Assistance Program (PWA).

— ***Single tax system***

The single tax system replaces the general and simplified tax systems. Since 2005, all taxpayers can claim the complementary amount that corresponds to the greater of a minimum amount of $3 035 for 2006 and the total of the contributions made to employment insurance, the Québec parental insurance program, the Québec Pension Plan or the Canada Pension Plan and the contribution to the Health Services Fund. Moreover, all taxpayers can claim all of the tax credits and tax deductions.

2005-2006 AND 2006-2007 BUDGETS

To enable the tax system to support taxpayers who, through their work, play an active part in Québec's economy, the 2005-2006 Budget Speech announced the implementation, for 2006, of a deduction for workers. This deduction corresponds to an amount equal to 6% of an individual's eligible labour income, up to $500.

In addition, in the 2006-2007 Budget Speech, it was announced that the maximum amount of the deduction for workers will double as of taxation year 2007, rising from $500 to $1 000.

IMPACT OF THE CHIEF MEASURES OF THE 2004-2005 TO 2006-2007 BUDGETS AFFECTING INDIVIDUALS

(Millions of dollars)

	2004	2005	2006	2007
2004-2005 BUDGET				
Support for families and work incentive				
• Refundable tax credit for child assistance				
– payment of child assistance	–	1 974	2 009	2 035
– supplement for handicapped children	–	42	54	55
• Non-refundable tax credit for adult children who are students				
– amounts for adult children who are students[1]	–	30	30	30
– amount for children engaged in vocational training or post-secondary studies	–	31	32	32
• Refundable tax credit granting a work premium	–	320	315	313
• Non-refundable tax credit for children				
– amounts for dependent children	569	–	–	–
– amount for children in post-secondary studies	42	–	–	–
• Tax reduction in respect of families	326	–	–	–
Subtotal: Support for families and work incentive	***937***	***2 397***	***2 440***	***2 465***
Single tax system				
• Non-refundable tax credits				
– complementary amount	–	1 389	1 412	1 459
– flat amount	1 179	–	–	–
– union and professional dues	119	180	187	193
– tuition or examination fees	68	97	98	98
– interest paid on a student loan	13	23	24	24
Subtotal: Single tax system	***1 379***	***1 689***	***1 721***	***1 774***
TOTAL: 2004-2005 BUDGET	2 316	4 086	4 161	4 239
2005-2006 AND 2006-2007 BUDGETS				
• Deduction for workers	–	–	300	588
GRAND TOTAL	2 316	4 086	4 461	4 827

[1] Includes the amounts for dependent children and for adult children who are students as well as the amount for the first child of a single-parent family.

Table 6

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	2002	2003	2004	2005	2006	2007	Reference page Part II
FISCAL MEASURES ENSURING FAIRNESS	**3 385**	**3 319**	**3 381**	**3 460**	**5 173**	**5 287**	**5 403**	
Support for families and work incentive	***1 308***	***1 251***	***1 193***	***1 189***	***2 651***	***2 695***	***2 723***	
• Tax credits regarding essential needs :								
- For spouse*	26	23	-	-	-	-	-	7
- For a person living alone	65	65	65	67	75	78	82	8
- For dependent children								
- amounts for dependent children and for adult children who are students	530	515	518	529	27	27	27	9
- amount for the first child of a single-parent family*	38	39	40	40	3	3	3	10
- amount for children engaged in vocational training or post-secondary studies	42	41	40	42	31	32	32	10
- For other dependants*	5	5	5	5	6	6	6	12
• Refundable tax credit for child assitance:								
- payment of child assistance	-	-	-	-	1 974	2 009	2 035	13
- supplement for handicapped children	-	-	-	-	42	54	55	13
• Allowances for new-born children	28	6	-	-	-	-	-	14
• Refundable tax credit for adoption expenses	3	4	5	4	3	3	3	15
• Refundable tax credit for the treatment of infertility	2	3	3	3	3	3	3	15
• Tax reduction in respect of families	378	359	336	326	-	-	-	16
• Refundable tax credit granting a work premium	-	-	-	-	320	315	313	16
• Refundable tax credit for child care expenses*	191	191	181	173	167	165	164	17
Tax credit relating to the flat amount of the simplified tax system [2]	***1 047***	***1 040***	***1 115***	***1 179***	-	-	-	*19*
Minimum complementary amount included in the determination of the basic tax credit [3]	-	-	-	-	***1 389***	***1 412***	***1 459***	*20*

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
Transfer of non-refundable tax credits not used by a spouse[4]	***390***	***382***	***418***	***415***	***443***	***454***	***463***	***21***
Other tax measures promoting a progressive tax system	***640***	***646***	***655***	***677***	***690***	***726***	***758***	
• Property tax refund	218	222	227	239	244	258	270	22
• Retroactive flat payments*	3	3	3	3	3	3	3	23
• Refundable tax credit for the Québec sales tax (QST)[5]*	419	421	425	435	443	465	485	24
TAX MEASURES WITH SPECIFIC OBJECTIVES	**3 350**	**2 584**	**6 491**	**6 255**	**6 839**	**7 319**	**7 979**	
Agriculture and fisheries	***45***	***59***	***49***	***43***	***43***	***44***	***44***	
• Cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25
• Flexibility in accounting for inventory*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25
• Deferral of capital gains:*								
- deferral of capital gains on farm or fishing assets passed on to children	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26
- deferral attributable to the 10-year reserve for capital gains on the sale to children of farm or fishing assets	2	3	3	4	4	5	5	26
• Exemption from paying quarterly instalments*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27
• Lifetime $500 000 capital gains exemption on farm assets*	43	56	46	39	39	39	39	27
• Lifetime $500 000 capital gains exemption on fishing assets*	-	f	f	f	f	f	f	28
• Deduction of contributions to a FISA	n.a.	n.a.	-	-	-	-	-	28
• Deduction for foreign farm workers	-	-	-	-	-	f	f	29
Culture	***3***	***3***	***4***	***4***	***4***	***4***	***4***	
• Dues and donations to arts associations	f	f	f	f	f	f	f	29
• Deduction for musicians and artists*	f	f	f	f	f	f	f	30
• Income averaging for artists	-	-	-	f	f	f	f	31

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Deduction for an artist regarding copyright or similar royalties	3	3	4	4	4	4	4	31
• Deduction for foreign producers	f	f	f	f	f	f	f	32
• Non-taxation of gains tied to donations and other dispositions of cultural property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32
• Non-taxation of gains tied to donations of a musical instrument	-	-	-	-	-	n.a.	n.a.	32
• Depreciation of works of art by a Canadian artist*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33
Employment	***115***	***84***	***70***	***74***	***72***	***376***	***663***	
• Deduction for workers	-	-	-	-	-	300	588	33
• Non-taxation of certain non-monetary benefits relating to an employment*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33
• Fiscal measures to encourage the use of public transit								
- additional deduction of 100% in the calculation of an employer's income	-	-	-	-	-	f	f	34
- non-taxation of benefits granted to employees	-	-	-	-	-	6	6	34
• Non-taxation of certain amounts paid to a member of a board of directors or a member of certain committees	f	f	f	f	f	f	f	34
• Non-taxation of certain allowances paid to emergency services volunteers*	3	3	3	3	3	3	3	35
• Non-taxation of strike benefits*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35
• Salary deferral under an employee benefits plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35
• Salary deferral because of leave*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36
• Deduction for tradespersons' tools*	-	-	-	-	-	2	4	36
• Deduction for a home relocation loan*	f	f	f	f	f	f	f	36
• Deduction for workers employed abroad*	30	27	27	26	28	28	28	37
• Deduction for a member of the Canadian Forces or a police officer on a mission	-	-	-	n.a.	n.a.	n.a.	n.a.	37
• Deductions for stock options (shares or trust units)*	82	54	40	45	41	37	34	37-38
• Deduction respecting the donation of securities acquired under a stock option*	f	f	f	f	f	f	f	39

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Refundable tax credit for job creation in the clothing and footwear industry	f	f	-	-	-	-	-	132
Business and investment	***543***	***602***	***752***	***1 043***	***1 311***	***1 330***	***1 352***	
• Non-taxation of income from War Savings Certificates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40
• Partial inclusion of capital gains*	200	187	232	308	363	381	400	40
• Reduction of the inclusion rate for capital gains resulting from the donation of certain securities*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40
• Reduction of the inclusion rate of capital gains arising from donations of property with undeniable ecological value*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41
• Exemption of $1 000 in capital gains realized on the sale of personal property*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41
• Exemption of $200 in capital gains realized on currency exchange transactions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41
• Non-taxation of capital gains on a principal residence*	234	314	435	628	837	834	833	42
• Deferral of capital gains:*								
- taxation of capital gains when realized	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42
- deferral by means of capital gains rollover provisions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42
- deferral of capital gains through transfers between spouses	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	44
- deferral by means of the five-year reserve	5	6	7	7	7	8	8	44
- deferral attributable to the 10-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business	10	12	9	10	11	12	13	45
• Income averaging for owners of private woodlots damaged by the ice storm	f	f	-	-	-	-	-	45
• Income averaging for forest producers	-	-	-	-	-	f	f	46
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46
• Rollover of investments in small businesses*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46
• Family trusts*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	47
• Deduction for losses as limited partner*	8	3	2	2	2	2	2	47

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	
• Deduction for eligible business investment losses*	7	6	7	8	8	8	8	48
• Lifetime $500 000 capital gains exemption on shares of small businesses*	79	74	60	80	83	85	88	48
Education	***95***	***97***	***114***	***109***	***150***	***152***	***152***	
• Tax exemptions regarding bursaries and awards*	22	24	29	28	30	30	30	49-50
• Registered education savings plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	50
• Deduction of contributions to a teacher exchange fund*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	50
• Tax credit for tuition or examination fees*	58	58	70	68	97	98	98	51
• Tax credit regarding interest paid on a student loan*	15	15	15	13	23	24	24	51
• Deduction for tool expenses of apprentice vehicle mechanics*	-	f	f	f	f	f	f	52
• Tax holiday for foreign post-doctoral interns	f	f	f	f	f	f	f	52
• Deduction for the repayment of student debt contracted under SPLW	f	f	f	f	f	f	f	53
• Refundable tax credit for on-the-job training periods	f	f	f	f	f	f	f	124
Developmental measures for the economy	***242***	***282***	***199***	***209***	***217***	***216***	***216***	
• Market makers	f	f	f	f	-	-	-	53
• Deduction for certain flow-through share issue expenses	f	f	f	f	f	f	f	54
• Deductions relating to strategic investments:								
- Stock Savings Plan	20	17	8	-	-	-	-	54
- SME Growth Stock plan	-	-	-	-	7	9	15	55
- flow-through shares								
- basic deduction of 100% of Canadian exploration expenses*	4	4	7	15	16	15	15	56
- additional deductions	2	3	3	3	3	3	3	56
- Québec Business Investment Companies	4	3	2	f	f	-	-	57
- additional capital gains exemption for certain assets relative to resources	f	f	f	f	f	f	f	57

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
- cooperative investment plan	11	5	3	3	9	9	9	58
• Deduction of R&D capital expenditures*	f	f	f	n.a.	n.a.	n.a.	n.a.	158
• Tax holiday for foreign researchers (R&D)	5	5	5	6	7	7	8	60
• Tax holiday for foreign experts	2	2	3	3	4	4	4	60
• Tax holiday for Québec seamen	f	f	f	f	f	f	f	61
• Tax exemptions for the employees of an international financial centre	22	22	22	14	8	8	8	61-62
• Tax holiday for foreign experts employed by a securities exchange or securities clearing corporation	f	f	f	f	f	f	f	62
• Deduction for a member of a partnership that operates an international financial centre	2	2	3	f	f	f	f	63
• Deduction for independent financial derivatives traders	f	f	f	f	-	-	-	63
• Tax holiday for foreign specialists working for a corporation that carries out activities in the field of new information and communications technologies in certain designated sites	f	f	f	f	f	f	f	64
• Tax holiday for foreign specialists working in certain designated biotechnology sites	-	f	f	f	f	f	f	65
• Tax holiday for foreign specialists working in the nutraceutical and functional foods sector	-	f	f	f	f	f	f	66
• Tax holiday for foreign specialists working for a corporation that carries out activities in a biotechnology development centre	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	66
• Tax holiday for foreign specialists working in innovation centres	-	f	f	f	f	f	f	67
• Tax holiday for foreign experts working in E-Commerce Place	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68
• Tax holiday for foreign specialists working in the e-business sector in certain designated sites	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Reference page Part II**
• Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel	f	f	f	f	f	f	f	69
• Tax holiday for foreign professors	f	3	3	5	5	6	6	69
• Refundable tax credit relating to the training period of young specialized employees of IFCs	f	f	f	f	f	f	f	132
• Refundable tax credit for IFC canvassing expenses	f	-	-	-	-	-	-	133
• Refundable tax credit for canvassing expenses for a foreign investment fund	n.a.	-	-	-	-	-	-	133
• Refundable tax credit for railway companies	f	f	f	f	-	-	-	139
• Refundable tax credit for the maintenance of a racehorse	f	f	f	-	-	-	-	131
• Temporary refundable tax credit for the acquisition of pig manure treatment facilities	-	-	-	-	-	2	4	152
• Tax credit for contributions to a labour fund*	131	116	96	110	107	98	91	70
• Non-taxation of tax credits	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	117
• Refundable tax credits for scientific research and experimental development (R&D)	f	f	f	f	f	f	f	121
• Tax credit for the acquisition of shares of Capital régional et coopératif Desjardins	39	100	44	50	51	55	53	70
Recognition of certain special situations	***60***	***80***	***117***	***177***	***194***	***200***	***310***	
• Refundable tax credit for lodging a parent*	16	16	16	16	16	-	-	70
• Refundable tax credit for natural caregivers of adults	-	-	-	-	-	49	50	71
• Refundable tax credit for home maitenance of an older person	24	44	60	78	94	107	194	72
• Deductions for inhabitants of remote regions*	12	12	13	14	14	14	14	73
• Refundable tax credit for individuals living in a northern village	f	f	f	f	f	f	f	73

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Refundable tax credit for new graduates working in a remote resource region	-	-	20	61	61	-	-	74
• Non-refundable tax credit for new graduates working in a remote resource region	-	-	-	-	-	21	43	75
• Deduction for lodging of members of a religious order*	3	3	3	3	4	4	4	75
• Tax credit for members of a religious order	f	f	-	-	-	-	-	75
• Refundable tax credit for top-level athletes	5	5	5	5	5	5	5	76
Retirement	***1 662***	***760***	***4 459***	***3 883***	***4 090***	***4 201***	***4 405***	
• Registered retirement savings plan:*								
- deduction for contributions	1 325	1 191	1 260	1 322	1 352	1 454	1 561	77
- non-taxation of investment income	255	3	1 263	1 017	1 089	1 134	1 217	77
- taxation of withdrawals	-367	-359	-375	-413	-454	-497	-544	77
• Registered pension plan:*								
- deduction for contributions	901	927	1 038	1 126	1 290	1 372	1 459	77
- non-taxation of investment income	604	73	2 412	2 100	2 223	2 300	2 439	77
- taxation of withdrawals	-1 270	-1 276	-1 334	-1 468	-1 612	-1 768	-1 935	77
• Deferred profit-sharing plan*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78
• Tax credit for retirement income*	62	60	58	59	60	61	62	79
• Tax credit with respect to age*	152	141	137	140	142	145	146	79
Health	***143***	***164***	***267***	***311***	***337***	***355***	***381***	
• Tax credit for medical expenses*	107	126	228	269	290	313	337	80
• Refundable tax credit for medical expenses*	11	13	16	18	23	27	29	80
• Tax credits relating to medical care not provided in the region of residence	f	f	f	f	f	f	f	81
• Tax credit for a person suffering from a severe and prolonged impairment in mental or physical functions*	25	25	23	24	24	15	15	82
Income support	***248***	***249***	***261***	***209***	***216***	***224***	***232***	
• Non-taxation of social assistance benefits*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	82

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	2002	2003	2004	2005	2006	2007	Reference page Part II
- Non-taxation of financial assistance with respect to child care expenses received under government employment assistance programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	83
- Deduction of financial assistance provided for payment of tuition fees relating to basic adult education*	f	f	f	f	f	f	f	83
- Non-taxation of the guaranteed income supplement and spouse's allowance*	35	35	32	34	36	37	39	84
- Non-taxation of benefits received under a public indemnity plan*								
- worker's compensation indemnities	110	111	118	80	84	88	93	84
- traffic accident indemnities	45	47	51	38	40	42	45	84
- indemnities received as a victim of crime	3	3	4	3	3	3	3	84
- Non-taxation of certain income from indemnities regarding physical or mental injuries*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	85
- Non-taxation of death benefits up to $10 000*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	85
- Non-taxation of pensions and indemnities (injury, disability or death) paid to RCMP officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	85
- Non-taxation of allowances of war veterans, income support benefits, war pensions and allowances paid to civilians and other military pensions (including those paid by allied countries)*	f	f	f	f	f	f	f	86
- Non-taxation of disability pensions of war veterans and dependants' support allowances*	21	22	24	24	26	26	26	86
- Non-taxation of certain benefits paid to war veterans*	-	-	-	-	-	3	3	86
- Alimony and support allowance*	34	31	32	30	27	25	23	86
Other specific measures	***194***	***204***	***199***	***193***	***205***	***217***	***220***	
- Non-taxation of gifts and bequests*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	87
- Non-taxation of income of Indians on a reserve*	23	25	28	29	38	38	39	87

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Non-taxation and deduction for employees of certain international organizations*	9	9	9	9	9	9	9	88
• Non-taxation of government housing purchase or renovation assistance programs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	88
• Deduction of moving expenses*	6	6	7	8	8	8	8	89
• Assistance for prospectors and prospecting sponsors*	f	f	f	f	f	f	f	89
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	17	18	12	1	f	-	-	161
• Tax credit for donations*	125	132	128	131	135	147	149	89
• Tax credit for contributions to a political party*	5	5	6	6	6	6	6	92
• Refundable tax credit for holders of a taxi driver's or taxi owner's permit	3	3	3	3	3	3	3	92
• Refundable tax credit for the renewal of the taxi fleet	f	f	f	f	f	f	f	93
• Property tax refund for forest producers	4	4	4	4	4	4	4	93
• Refundable tax credit relative to the declaration of tips	2	2	2	2	2	2	2	148
• Deferral of taxation of an eligible rebate	-	n.a.	n.a.	n.a.	n.d	n.a.	n.a.	94
TAX MEASURES SHOWN FOR INFORMATION PURPOSES	**8 211**	**8 167**	**8 588**	**8 862**	**9 175**	**9 516**	**9 827**	
• Basic tax credit[6]*								
- Amount for basic needs	4 986	4 953	5 061	5 214	5 340	5 524	5 702	94
- Employment insurance contributions:								
- tax reflief regarding contributions paid by employees[2,3]*	370	357	359	350	341	274	280	95
- non-taxation of contributions paid by the employer*	535	493	502	488	489	392	399	95
- Contributions to the Québec parental insurance plan								
- tax relief regarding contributions paid by employees and self-workers[2,3]*	-	-	-	-	-	96	99	96

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
- Non-taxation of contributions paid by employers and deduction for self-employed workers*	-	-	-	-	-	139	142	96
- Contributions to the Québec Pension Plan:								
- tax relief regarding contributions paid by employees and self-workers[2,3]*	634	693	786	822	828	864	897	97
- Non-taxation of contributions paid by employers and deduction for self-employed workers*	661	691	795	828	854	890	923	97
• Non-inclusion of the Universal Child Care Benefit in the calculation of tax credits determined on the basis of income	-	-	-	-	-	16	31	97
• Tax credit for union and professional dues*	93	99	116	119	180	187	193	98
• Deduction of certain employment-related expenses*	98	95	104	109	109	110	111	98
• Non-taxation of allowances paid to certain public officers*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	98
• Non-taxation of indemnities paid to diplomats and other government employees stationed abroad*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	99
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	164
• Deduction of entertainment expenses*	26	25	21	17	18	18	18	165
• Deduction for expenses of an attendant and for support measures for handicapped persons*	f	f	f	f	f	f	f	99
• Expenses incurred to earn investment income*	84	67	74	76	85	94	98	99
• Dividend gross-up and tax credit*	184	206	209	244	289	237	230	100
• Non-taxation of capital dividends*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	101
• Carry-over of farm losses of part-time farmers*	8	8	8	9	9	10	10	101
• Carry-over of farm and fishing losses*	f	f	f	f	f	f	f	102
• Capital loss carry-over*	11	13	22	32	42	55	72	102
• Carry-over of losses other than capital losses*	14	12	11	11	17	17	18	102
• Non-taxation of lottery and gambling earnings[7]*	469	411	467	491	522	541	552	102

Table 6 (continued)

COST OF TAX EXPENDITURES RELATED TO THE PERSONAL INCOME TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Foreign tax credit*	25	27	29	30	30	30	30	103
• Credit for tax of another province	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	103
• Amounts exempt from tax under a tax agreement*	13	17	24	22	22	22	22	103
• Deduction for tax on forest operations*	f	f	f	f	f	f	f	166
• Trust fund created for landfill sites (garbage or quarries for the extraction of aggregates and substances of a similar nature)*	f	f	f	f	f	f	f	160
Subtotal: tax expenditures	*6 735*	*5 903*	*9 872*	*9 715*	*12 012*	*12 606*	*13 382*	
Subtotal: for information purposes	*8 211*	*8 167*	*8 588*	*8 862*	*9 175*	*9 516*	*9 827*	
TOTAL: PERSONAL INCOME TAX	**14 946**	**14 070**	**18 460**	**18 577**	**21 187**	**22 122**	**23 209**	

* A similar measure is offered in the federal tax system.

f The tax cost is less than $2 million.

n.a. The cost is not available because of insufficient or missing data.

- The measure does not apply that year.

[1] It is important to specify that for years prior to 2005, tax expenditures represent an estimate, which means, in general, that their cost is calculated from real tax statistics from the ministère du Revenu, where available, or, otherwise, from other sources and using certain assumptions. For 2005 and subsequent years, tax expenditures represent a projection, which means, in general, that their cost is obtained by projecting, using various economic indicators, their last estimated value.

[2] The tax expenditure relating to the flat amount considers that the basic system includes non-refundable tax credits for employment insurance and Québec Pension Plan contributions.

[3] The tax expenditure relating to the minimum complementary amount considers that the basic system includes an amount for payroll contributions to employment insurance, the Québec Parental insurance Plan (as of 2006) and the Québec Pension Plan.

[4] Includes the transfer between spouses of the basic credit, the other transfers being implicitly included in each measure.

[5] Excludes $280 million in 2001 equivalent to an increase in the tax credit of $100 per adult.

[6] Excludes the transfer of non-refundable tax credits not used by a spouse.

[7] Maximum amount. For example, in the event of the taxation of lottery or gambling earnings, this amount should be reduced for the following reasons:
- exclusion from taxation of small prizes for administrative reasons;
- downward impact on lottery or gambling-related purchases;
- possibility of excluding or compensating certain charitable organizations.

Table 7

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	2002	2003	2004	2005	2006	2007	Reference page Part II
INCOME TAX	**1 733**	**1 604**	**1 665**	**1 578**	**1 594**	**1 845**	**1 897**	
Reduced tax rates and exemptions [2]	***474***	***277***	***367***	***358***	***371***	***570***	***580***	
• Reduced tax rate for small businesses*	-	-	-	-	-	150	167	105
• Reduced tax rate for savings and credit unions*	11	16	6	-	-	-	-	106
• Partial inclusion of capital gains*	414	219	317	322	335	378	370	40
• Exemption of registered charities and non-profit organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	106
• Exemption of government organizations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	107
• Tax exemption regarding income earned from the administration and management of new investment funds	f	f	f	f	f	f	-	111
• Exemption of labour funds and of Capital régional et coopératif Desjardins	19	4	5	f	-	-	-	116
• Non-taxation of tax credits	30	38	39	36	36	42	43	117
• Income averaging for forest producers	-	-	-	-	-	f	f	46
Deductions	***75***	***38***	***46***	***47***	***40***	***44***	***40***	
• Deduction relating to resources*	7	7	23	19	7	7	-	117
• Deductibility of royalties paid to Indian bands*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	117
• Deductibility of donations*	63	26	19	24	29	31	32	118
• Deduction for eligible business investment losses*	5	5	4	4	4	4	5	48
• Deductibility of countervailing and antidumping duties*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	120
• Deductibility of allowances for earthquakes*	f	f	f	f	f	f	f	121
• Additional deduction of 100% in the calculation of an employer's income for the purchase of a public transit pass	-	-	-	-	-	2	3	34

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
Refundable tax credits	***1 076***	***1 187***	***1 203***	***1 166***	***1 180***	***1 228***	***1 274***	
Promoting innovation	**795**	**846**	**870**	**834**	**862**	**887**	**901**	
i) Research and development	***649***	***670***	***657***	***596***	***602***	***622***	***638***	
• Scientific research and experimental development:								
- salaries of researchers	528	595	581	547	573	592	606	121
- university research	8	7	7	6	6	6	7	121
- other	24	25	24	23	23	24	25	121
• Super-deductions for R&D	44	-	-	-	-	-	-	122
• Tax credit based on the increase in R&D expenditures	45	43	45	20	-	-	-	122
ii) New economy	***146***	***176***	***213***	***238***	***260***	***265***	***263***	
• Design	8	8	7	7	9	13	15	123
• Production of multimedia titles	22	22	22	25	33	35	37	139
• CDTI	22	17	18	18	17	17	16	140
• Cité du multimédia	35	36	36	36	37	37	38	142
• Centre national des nouvelles technologies de Québec	12	14	13	12	13	14	14	142
• New economy centres	15	24	33	36	38	39	39	142
• E-Commerce Place	29	43	66	72	73	74	75	143
• Technopôle Angus	f	f	f	f	f	f	-	144
• Corporations that carry out activities in a biotechnology development centre	f	f	f	f	f	f	2	140
• Cité de l'optique	3	4	f	f	f	f	f	153
• E-business activities carried out in certain designated sites	f	8	18	30	38	33	21	146
• Biotechnology development in certain designated sites	f	f	f	f	f	f	f	145
• Nutraceuticals and functional foods	-	f	f	f	f	f	-	147
• Innovation centres	-	f	f	2	2	f	f	147
• Major employment-generating projects	-	-	-	-	f	3	6	148
Promoting investment	**90**	**128**	**125**	**128**	**122**	**135**	**149**	
i) Regions	***43***	***77***	***105***	***112***	***119***	***120***	***127***	
• Shipbuilding or conversion	f	5	9	11	11	11	12	131
• Vallée de l'aluminium	12	8	6	5	5	5	6	153
• Gaspésie and certain maritime regions of Québec	f	2	3	4	6	6	7	154
• Processing activities in resource regions	9	35	53	48	51	54	56	154
• Tax credit relating to resources	22	27	34	44	46	44	46	155
• Hiring new graduates	-	-	f	f	f	-	-	155

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	2002	2003	2004	2005	2006	2007	Reference page Part II
ii) Financial sector	***6***	***f***	***f***	***f***	***f***	***f***	***f***	
• Training period of young specialized employees of IFCs	f	f	f	f	f	f	f	132
• IFC canvassing expenses	f	f	-	-	-	-	-	133
• Canvassing expenses for a foreign investment fund	f	f	-	-	-	-	-	133
• Creation of investment funds	6	f	f	-	-	-	-	134
• Communications between corporations and investors	f	f	f	f	-	-	-	134
• Fund managers	f	f	f	f	-	-	-	135
• Hiring junior financial analysts specializing in the securities of Québec corporations	f	f	f	f	-	-	-	136
• Hiring junior financial analysts specializing in financial derivatives	f	f	f	f	-	-	-	137
• Hiring of employees specializing in financial derivatives	-	-	-	-	-	f	f	137
• Participation of investment dealers on the Nasdaq stock market	f	f	f	f	-	-	-	138
iii) Sectoral	***41***	***51***	***20***	***16***	***3***	***15***	***22***	
• Job creation in the clothing and footwear industry	16	9	-	-	-	-	-	132
• Railway companies	11	11	9	f	-	-	-	139
• Montréal Foreign Trade Zone at Mirabel:								
- wages	f	f	f	2	f	f	f	150
- eligible customs brokerage contract	f	f	f	f	f	f	f	150
- equipment	8	7	f	6	3	4	3	151
- construction of strategic buildings	6	24	2	8	f	-	-	152
• Construction of public access roads and bridges in forest areas	-	-	9	f	-	11	19	156
Promoting culture	**117**	**121**	**124**	**133**	**126**	**129**	**131**	
• Québec film and television production*	95	105	107	108	98	99	100	125
• Film production services	10	7	6	11	12	13	14	127
• Dubbing	f	f	f	3	3	3	3	128
• Sound recordings production	f	f	f	f	f	f	f	128
• Production of shows	3	4	7	6	7	8	8	129
• Eligible digital show	4	f	-	-	-	-	-	129
• Book publishing	5	5	4	5	6	6	6	130

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
Other tax credits	**74**	**92**	**84**	**71**	**70**	**77**	**93**	
• Technology adaptation services	f	f	f	f	f	f	f	123
• On-the-job training periods	22	25	26	22	23	24	27	124
• Maintenance of a racehorse	f	f	f	f	-	-	-	131
• Encourage Québec SMEs to adopt e-commerce solutions	16	17	4	-	-	-	-	145
• Declaration of tips	36	50	54	49	47	51	61	148
• Tax credit relating to the tax paid by an environmental trust fund	f	f	f	f	f	f	f	160
• Tax credit for a taxi business	f	f	f	f	f	f	f	92
• Renewal of the taxi fleet	f	f	f	f	f	f	f	93
• Tax credit for the production of ethanol in Québec	-	-	-	-	-	-	2	149
• Temporary tax credit for the acquisition of pig manure treatment facilities	-	-	-	-	-	2	3	152
Deferrals	***108***	***102***	***49***	***7***	***3***	***3***	***3***	
• Expenses relating to resources:								
- accelerated amortization of Canadian exploration expenses	f	f	n.a.	n.a.	n.a.	n.a.	n.a.	157
- accelerated amortization of Canadian development expenses	f	3	n.a.	n.a.	n.a.	n.a.	n.a.	157
• Expenses relating to renewable energy and energy conservation in Canada	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158
• Deduction of R&D capital expenditures*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158
• Deductibility of land-holding expenses*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	158
• Rule on assets ready to be put into service*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	159
• Taxation of capital gains when realized*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42
• Immediate deduction of advertising expenses*	2	3	3	3	3	3	3	159
• Environmental trust	f	f	f	f	f	f	f	160
• Deferral using the billing-based accounting method for professionals*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46
• Holdbacks on staggered payments to contractors*	f	f	f	f	f	f	f	160
• Agriculture and fisheries:								
- cash accounting method*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25
- flexibility in accounting for inventory*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Accelerated depreciation, additional 20% deduction and supplementary 25% deduction	106	96	46	4	-	-	-	161
Other tax expenditures	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	***n.a.***	
• Non-taxation of investment income from life insurance policies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	162
• Accelerated depreciation to help small businesses make their computer systems year 2000 compliant	n.a.	n.a.	-	-	-	-	-	162
• Non-taxation of life insurance companies on their income from foreign sources*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	162
• Exemption from Québec tax of the profits of foreign air and marine transportation companies*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163
• Federal aviation fuel excise tax rebate program*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163
• Tax assistance for the capitalization of the Réseau d'investissement social du Québec	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	163
Tax measures shown for information purposes	***422***	***361***	***465***	***528***	***453***	***474***	***504***	
• Tax depreciation (extra amount compared with accounting depreciation)*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	164
• Deduction of rebates of savings and credit unions and cooperatives*	14	25	33	42	44	42	41	164
• Deferral of taxation of an eligible rebate	-	f	f	f	f	f	f	94
• Deferral of capital gains through various rollover provisions*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	165
• Deduction of entertainment expenses*	35	37	41	43	45	47	49	165
• Loss carry-over:								
- other than capital losses*	266	283	343	379	317	338	367	102
- capital loss*	104	12	46	53	36	36	36	102
- farm and fishing losses*	f	f	f	2	2	2	2	102
• Deduction for tax on forest operations*	3	4	2	5	5	5	5	166
• Deduction for investment corporations*	f	f	f	f	f	f	f	166

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**page Part II**
• Extra deduction for intangible fixed assets*	f	f	f	4	4	4	4	167
• Exemption of the active income of foreign subsidiaries of Canadian corporations*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	167
TAX ON CAPITAL[2]	**170**	**162**	**227**	**321**	**423**	**449**	**464**	
• Exemption of the first $1 million of paid-up capital	-	-	82	189	266	246	230	175
• Deduction of one-third of the paid-up capital of mining corporations	10	8	8	9	10	9	9	175
• Rate of 2% for life and health insurance premiums	68	72	78	83	87	89	92	175
• Exemption for cooperatives	10	11	8	8	8	7	7	176
• Exemption for corporations operating in the agriculture or fisheries sector	17	17	14	10	8	7	7	177
• Inactive corporations with assets of less than $5 000	f	f	-	-	-	-	-	177
• Exemption of government organizations, charities and other non-profit organizations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	177
• Mining corporation yet to reach the production stage	f	f	-	-	-	-	-	178
• Deduction for the acquisition or conversion of ships	f	f	f	f	f	f	f	178
• Holiday from the tax on capital for new investments in certain sectors	56	44	31	22	f	-	-	179
• Reduction in the paid-up capital of certain financial institutions	9	10	6	-	-	-	-	179
• Deduction regarding certain inventory vehicles	-	-	-	-	3	3	3	178
• Capital tax credit regarding certain investments	-	-	-	-	41	88	116	180
TAX HOLIDAYS[3]	**156**	**226**	**255**	**252**	**221**	**220**	**224**	
• New corporations	87	104	90	67	46	30	16	107-168-181
• International financial centres	26	34	34	26	22	21	21	108-169-181
• CDTI	5	4	4	3	3	3	3	109-169-182
• Montréal Foreign Trade Zone at Mirabel	8	11	35	46	49	53	58	112-171-184
• Major investment projects	14	36	53	76	65	74	85	113-173-185
• Manufacturing SMEs in remote resource regions	16	37	39	34	36	39	41	115-174-186

Table 7 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
• Eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal	f	f	f	f	f	f	f	113-172-184
• Corporations carrying out an innovative project in a biotechnology development centre	f	f	f	f	f	f	f	110-170-183
Subtotal: tax expenditures	***2 059***	***1 992***	***2 147***	***2 151***	***2 238***	***2 514***	***2 585***	
Subtotal: for information purposes	***422***	***361***	***465***	***528***	***453***	***474***	***504***	
TOTAL: CORPORATE TAXES	**2 481**	**2 353**	**2 612**	**2 679**	**2 691**	**2 988**	**3 089**	

* A similar measure is offered in the federal tax system.

f The tax cost is less than $2 million.

n.a. The cost is not available because of insufficient or missing data.

- The measure does not apply that year.

[1] It is important to specify that for years prior to 2005, tax expenditures represent an estimate, which means, in general, that their cost is calculated from real tax statistics from the ministère du Revenu, where available, or, otherwise, from other sources and using certain assumptions. For 2005 and subsequent years, tax expenditures represent a projection, which means, in general, that their cost is obtained by projecting, using various economic indicators, their last estimated value.

[2] The cost of some of these measures is presented in the "Tax holidays" section.

[3] Tax holidays apply to the three sources of corporate taxation: income tax, tax on capital and contributions to the Health Services Fund.

Table 8

COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
QUÉBEC SALES TAX	**2 234**	**2 360**	**2 480**	**2 611**	**2 728**	**2 828**	**2 913**	
Zero-rated property and services	***1 236***	***1 299***	***1 340***	***1 422***	***1 513***	***1 576***	***1 629***	
• Basic groceries*	942	963	994	1 036	1 093	1 133	1 167	189
• Prescription drugs*	129	146	153	163	176	186	194	189
• Medical devices*	33	34	36	38	41	43	45	189
• Children's diapers and items used to breast-feed or bottle-feed infants	-	-	-	7	9	9	9	190
• Books	35	39	40	42	43	45	46	190
• Financial services[2]	97	117	117	136	151	160	168	190
Exempt property and services	***619***	***646***	***674***	***715***	***746***	***781***	***812***	
• Rental accomodation*	318	337	352	369	386	404	420	191
• Sales of used residential buildings or personal use buildings*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	191
• Health care services*	135	137	146	156	167	176	185	191
• Educational services*	46	47	49	50	51	52	53	192
• Child care and personal care services*	48	49	49	56	56	57	57	192
• Standard municipal services*	34	37	38	40	41	44	47	192
• Municipal transit services*	38	39	40	44	45	48	50	193
• Supplies by charities and non-profit organizations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	193
• Ferries, and road and bridge tolls*	f	f	f	f	f	f	f	193
Tax rebates	***341***	***372***	***417***	***427***	***422***	***423***	***423***	
• Rebates granted to public service bodies:								
- charities and certain non-profit organizations*	92	95	102	102	109	112	114	193
- schools, colleges and universities*	97	106	126	135	144	148	150	194
- hospitals*	66	68	79	75	81	83	84	194
- municipalities*	3	-	-	-	-	-	-	194
• Rebate granted to purchasers of new residential housing*	61	88	93	96	71	62	56	194
• Rebate granted to lessors of new residential property*	9	12	17	19	17	18	19	195
• Rebate granted to foreign tourists*	13	3	f	f	-	-	-	195

Table 8 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Reference page Part II**
• Rebate provided for automatic door openers for the use of disabled persons	f	f	f	f	f	f	f	195
• Rebate regarding certain hybrid vehicles	-	-	-	-	-	f	f	196
Measures to facilitate QST administration	***38***	***43***	***49***	***47***	***47***	***48***	***49***	
• Exclusion of small suppliers from the field of application of the QST*	38	43	47	44	47	48	49	196
• Simplified accounting methods:								
- simplified method for charities*	f	f	2	3	f	f	f	196
- quick method for small businesses*	f	f	f	f	f	f	f	197
- quick method for qualifying public service bodies*	f	f	f	f	f	f	f	197
- simplified calculation methods of ITRs and partial QST rebates*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	197
Other tax expenditures	***f***	***f***	***f***	***f***	***f***	***f***	***f***	
• Non-taxable imports*	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	198
• Exemption granted to the Société Saint-Jean-Baptiste de Montréal	f	f	f	f	f	f	f	198
Tax measures shown for information purposes	***35***	***36***	***37***	***38***	***41***	***42***	***42***	
• Entertainment expenses*	19	20	20	21	22	23	23	198
• Rebate granted to employees and partners*	16	16	17	17	19	19	19	199
TAX ON INSURANCE PREMIUMS	**351**	**371**	**385**	**402**	**416**	**428**	**441**	
• Exemption with respect to an individual policy of insurance of persons	250	262	269	280	292	303	315	199
• Reduction in the tax rate for automobile insurance	101	109	116	122	124	125	126	199
• Exemption with respect to certain compulsory insurance plans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	199

Table 8 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
FUEL TAX	**214**	**206**	**203**	**211**	**200**	**217**	**224**	
• Reduction in the rate of the tax in certain regions	88	87	89	94	90	92	94	200
• Reduction in the rate of the tax for aircraft and railroad locomotives	83	76	69	70	65	69	71	201
• Exemptions and refunds granted to farmers and fishers	f	f	f	f	f	f	f	201
• Exemptions and refunds granted to the industrial sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	201
• Exemptions and refund granted to the aviation sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	202
• Exemption for commercial vessels	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	202
• Exemption for propane gas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	202
• Refund granted to farm, forest and mining businesses	30	29	30	31	30	31	31	202
• Refund granted to public carriers	5	5	5	5	5	13	15	203
• Refund regarding biodiesel fuel	-	-	-	-	-	2	2	203
• Refund regarding fuel used to supply an engine for stationary purposes of the equipment of a vehicle	8	9	10	11	10	10	11	203

Table 8 (continued)

COST OF TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM[1]

(Millions of dollars)

	Estimate				Projection			Reference page Part II
	2001	2002	2003	2004	2005	2006	2007	
TAX ON ALCOHOLIC BEVERAGES	**4**	**6**	**6**	**7**	**9**	**10**	**10**	
• Reduction in rates of the specific tax regarding beer sold by microbreweries	4	6	6	7	9	10	10	204
• Reduction in rates of the specific tax regarding alcoholic beverages sold by small-scale producers	f	f	f	f	f	f	f	204
Subtotal: tax expenditures	*2 803*	*2 943*	*3 074*	*3 231*	*3 353*	*3 483*	*3 588*	
Subtotal: for information purposes	*35*	*36*	*37*	*38*	*41*	*42*	*42*	
TOTAL: CONSUMPTION TAXES	**2 838**	**2 979**	**3 111**	**3 269**	**3 394**	**3 525**	**3 630**	

* A similar measure is offered in the federal tax system.

f The tax cost is less than $2 million.

n.a. The cost is not available because of insufficient or missing data.

- The measure does not apply that year.

[1] It is important to specify that for years prior to 2005, tax expenditures represent an estimate, which means, in general, that their cost is calculated from real tax statistics from the ministère du Revenu, where available, or, otherwise, from other sources and using certain assumptions. For 2005 and subsequent years, tax expenditures represent a projection, which means, in general, that their cost is obtained by projecting, using various economic indicators, their last estimated value.

[2] Net effect of the zero-rating of financial services and the compensatory tax on financial institutions.

2.5 ADDITIONAL INFORMATION

This section provides additional information on the refundable tax credit for home maintenance of an older person, as well as an analysis of the impact of the taxation choice on economic growth.

2.5.1 Refundable tax credit for home maintenance of an older person

The refundable tax credit for home maintenance of an older person was introduced on January 1, 2000. The main objective of this measure is to financially support elderly persons who want to remain as long as possible in their home setting, residence or a seniors' residence.

☐ SITUATION FOR 2006

In 2006, the tax system grants an individual 70 years of age or over a refundable tax credit equivalent to 23% of the eligible expenses he has incurred to obtain certain home support services.

However, the amount of expenses eligible for this tax credit is subject to an annual limit of $12 000, enabling the individual to receive a maximum tax credit of $2 760.

To take advantage of this tax credit, the individual must pay the expenses incurred by means of the employment service paycheque mechanism, which enables him to obtain payment of the tax credit as he defrays the cost of the expenses and, if he makes use of the services of employees, to receive a payroll processing service.

☐ ASSISTANCE PAID

From 2001 to 2004, the number of elderly persons who made use of the tax credit rose consistently. The cost of the tax expenditure therefore increased substantially, from $24 million in 2001 to $78 million in 2004.

Table 9

REFUNDABLE TAX CREDIT FOR HOME MAINTENANCE OF AN OLDER PERSON – 2001 TO 2004

Year	**Number of recipients**	**Tax credit** ($ millions)	**Tax credit per recipient** ($)
2001	34 556	24.0	693
2002	52 235	44.0	842
2003	68 841	60.1	873
2004	87 062	77.5	890

MAIN OBSERVATIONS

During 2005 and 2006, the ministère des Finances reviewed the tax credit and made the following observations:

- The number of persons age 70 or over who made use of the tax credit was 87 062 in 2004 and represented 15% of the population age 70 or over.
- The tax credit was especially beneficial for elderly persons with an income of less than $20 000. In 2004, for this income bracket, the tax credit was $51 million out of a total of $78 million, a proportion of 65.8%.
- Few elderly persons living at home claimed the tax credit. In 2004, the clientele living at home represented 26% of the tax credit's clientele, well below the proportion (i.e. the majority of elderly persons) of the population of seniors living in their own home.
- Almost 3 000 elderly persons had home assistance expenses in excess of $12 000. These persons were restricted by the annual ceiling on eligible expenses.
- Some services, such as nursing care, were not eligible for the tax credit whereas 38 000 elderly persons living in seniors' residences need nursing care.

Table 10

REFUNDABLE TAX CREDIT FOR HOME MAINTENANCE OF AN OLDER PERSON BY RECIPIENT INCOME – 2004

	Number of recipients	Tax credit		
		($ million)	($ per recipient)	(% distribution)
Seniors' residence				
Under $20 000	41 907	46.8	1 117	60.4
$20 000 to $50 000	18 504	19.6	1 059	25.3
$50 000 to $100 000	3 132	3.2	1 007	4.1
$100 000 or over	587	0.6	977	0.7
Subtotal	**64 130**	**70.1**	**1 094**	**90.5**
At home[1]				
Under $20 000	12 585	4.2	331	5.4
$20 000 to $50 000	7 613	2.1	281	2.8
$50 000 to $100 000	2 206	0.7	334	0.9
$100 000 or over	528	0.3	608	0.4
Subtotal	**22 932**	**7.4**	**321**	**9.5**
All recipients				
Under $20 000	54 492	51.0	936	65.8
$20 000 to $50 000	26 117	21.7	832	28.0
$50 000 to $100 000	5 338	3.9	729	5.0
$100 000 or over	1 115	0.9	802	1.2
TOTAL	**87 062**	**77.5**	**890**	**100.0**

[1] Includes private homes, apartments and condominiums.

Sources: ministère du Revenu and ministère des Finances du Québec.

☐ CHANGES MADE IN THE *2006-2007 BUDGET*

To facilitate access to the tax credit, increase the number of recipients and improve tax assistance for services and care needed for home maintenance of an elderly person, the 2006-2007 Budget announced a number of changes to the tax credit that will become effective in taxation year 2007.

To encourage more elderly persons to claim this tax credit, especially those living at home, the tax credit will be paid by the ministère du Revenu when the tax return is filed. Elderly persons may, upon request, obtain the tax credit in advance.

In addition, to better support elderly persons with high eligible expenses:

— the rate of the tax credit will rise from 23% to 25%;

— the annual ceiling on eligible expenses will rise from $12 000 to $15 000.

Lastly, nursing care services will be recognized as eligible services.

These changes will increase the number of elderly persons claiming the tax credit for 2007 by 180 000. Almost $74 million of additional tax assistance will be paid to elderly persons.

2.5.2 *Impact of the taxation choice on economic growth*

☐ INTRODUCTION

According to the economic literature, some types of taxes have a greater adverse effect on economic growth than others. Most studies on the subject indicate that taxation of capital (corporate capital tax, taxation of capital gains of individuals) is more harmful to economic prosperity. Next are taxes on labour (personal income taxes, corporate payroll taxes) and consumption taxes.

Moreover, the impacts differ not only according to the characteristics (level, tax base, progressivity, tax credits and exemptions) of each type of tax, but also according to external factors, such as the features of the economy (market rigidities, international competition, etc.).

This section deals with the issue of the impact of the tax mix, i.e. the weighting of the various taxes that make up the tax system, on the economic activity, in the specific context of Québec. The instrument used for estimation purposes is the General Equilibrium Model of the ministère des Finances du Québec (GEMFQ).

☐ COMPARISON OF THE DISTRIBUTION OF TAXES BETWEEN QUÉBEC AND G7 COUNTRIES

Québec relies more heavily on the income tax and the capital tax compared to Canada and the average of the G7 countries.

Indeed, personal income tax accounts for 34% of the total tax revenues of all government in Québec, compared to only 26% on average in the G7 countries. Similarly, the capital tax provides close to 2% of the total tax revenues of governments in Québec, whereas this tax is virtually absent in the G7 countries.

Table 11

COMPARISON OF THE DISTRIBUTION OF TAX REVENUES[1] BETWEEN QUÉBEC AND G7 COUNTRIES – 2003

(Per cent)

	Personal income tax	Corporate income tax	Taxes on capital	Payroll taxes[2]	Consumption taxes	Other	Total
Québec	34.1	10.8	1.9	19.8	25.0	8.5	100.0
Average of the G7	26.1	7.9	0.1	29.8	25.4	10.7	100.0
Canada	34.6	10.4	0.9	17.5	26.1	10.5	100.0
United Kingdom	28.7	7.8	0.0	18.5	32.7	12.3	100.0
United States	35.3	8.1	0.0	26.4	18.2	12.1	100.0
Japan	17.5	13.0	0.0	38.5	20.3	10.6	100.0
France	17.5	5.7	0.0	37.7	25.5	13.6	100.0
Germany	23.9	3.5	0.0	40.5	29.4	2.6	100.0
Italy	25.1	6.6	0.0	29.5	25.7	13.1	100.0

1 Includes all levels of government.

2 Payroll taxes included social security contributions and salary taxes.

Sources: OECD, Revenue Statistics (2004) and ministère des Finances du Québec.

☐ SIMULATED SCENARIOS

To illustrate the relative effect of taxes on Québec's economy, the ministère des Finances estimated the impacts of a $1-billion reduction in revenue from each of the following instruments of Québec's tax system:

- the capital tax;
- the corporate income tax;
- the payroll tax (contributions to the Health Services Fund);
- the personal income tax;
- the Québec sales tax.

☐ IMPACT ON ECONOMIC ACTIVITY

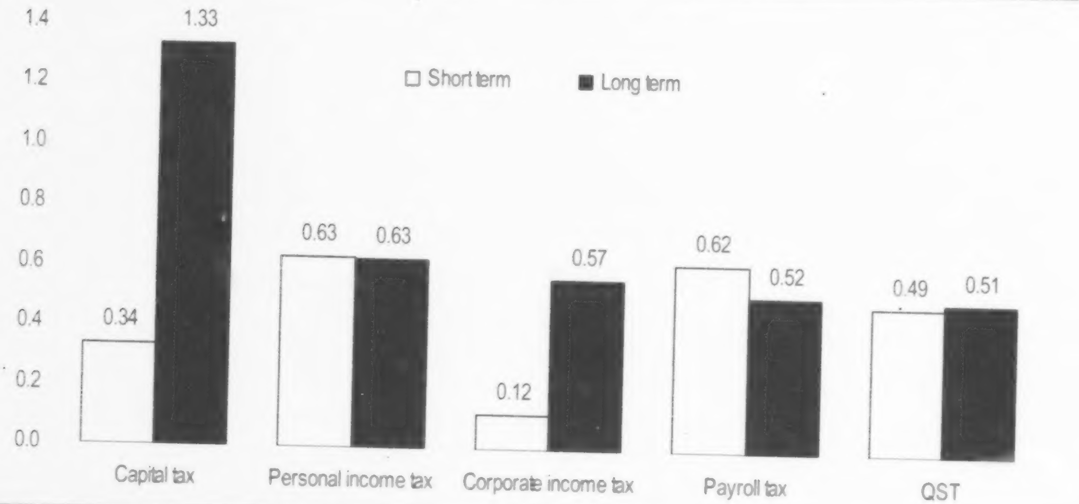
The mechanisms by which taxes influence economic growth are many and complex. In particular, they act on the return of factors of production and their relative utilization, prices, and, consequently, on the behaviour of economic agents. Some of these mechanisms, including those that affect the disposable income of households, corporate profits and consumption, have short-term effects. Others, such as those relating to the accumulation of capital or the supply of labour, need more time to reach maturity. To provide a complete view of the impacts of the various simulations, this section shows the short-term and long-term results, with more attention paid to the long-term results.

The results obtained in the course of this exercise are comparable to those in the literature. They suggest that, among the tax instruments currently used in Québec, the capital tax and the personal income tax have the most harmful effects on economic growth. A smaller, though still significant, negative impact is associated with corporate income tax and the payroll tax. Lastly, the consumption tax appears to be the least harmful, especially in the long run.

Chart 3

IMPACT ON QUÉBEC'S REAL GDP PER DOLLAR OF TAX REDUCTION

(Dollars)



Note: The following assumptions were made:

- Tax reductions have no impact on government revenues, i.e. the government's budgetary balance is fixed. The government offsets the loss of revenue caused by the tax cuts by collecting a flat tax. This assumption has been retained for its neutrality.
- Tax cuts are proportional. In other words, there is no change to the tax base, the tax credits, etc.

Source: General Equilibrium Model of the ministère des Finances du Québec.

— The capital tax

The results in Chart 3 show that in the long run, a reduction in the capital tax does the most to stimulate economic activity. This corresponds to the main results observed in the literature, that suggest that this tax is most harmful to economic growth because the accumulation of capital is one of the main sources of growth. The impact of this tax on the decision to invest consists mainly of a reduction in the return on capital, which, in a context of open markets, can alter the flow and location of investments.

Although opinions among economists differ on the degree of mobility of capital, many studies have shown that it is important and has risen in recent years. Accordingly, jurisdictions are competing ever more stenuously to attract capital and, while other components also enter into consideration, taxation represents a prime factor.

— Personal income tax

Personal income tax ranks second in terms of impact on economic activity. It has a significant short-term effect on disposable income of households and, consequently, on their consumption. In addition, in the long run, it acts on the incentive to work, savings and income redistribution.

Moreover, a high income tax may dissuade individuals from investing in education and training. In addition, by changing households' savings, the income tax has an impact on investment in the long run.

— Corporate income tax

Corporate income tax ranks third in terms of impact on economic activity. Like the capital tax, a reduction in corporate income tax increases the after-tax return on capital, which encourages economic agents to invest. However, that may lead to a reduction in certain tax benefits (tax credits, exemptions), which accounts for the lower impact than that of the capital tax.

— Payroll tax (contributions to the Health Services Fund)

In the case of the payroll tax, the lesser impact on economic activity is attributable to the fact that it consists of a tax imposed on labour, a factor of production that is relatively less mobile than capital. In this case, it is easier for companies to transfer part of the burden of the tax to households by raising salaries less quickly. Accordingly, the impact of the payroll tax depends a great deal on the division of the burden of the tax between workers and employers. This division depends, among other things, on labour market rigidities and the relation between the supply of and demand for labour.

The decline in the cost of labour is reflected mainly by an increase in employment. In addition, since the burden of the payroll tax is distributed between workers and companies, its reduction has an effect on a company's costs of production, which reduces prices of products and stimulates real investment.

— The Québec sales tax (QST)

In last place is the Québec sales tax (QST), which has little effect on investment. This tax essentially affects household consumption and its impacts are felt especially in the short term. In view of its major effect on prices, this tax has an impact on wages which are generally tied to the change in the cost of living. Accordingly, the small impact of the QST is attributable to the fact that it is a value-added tax that allows a rebate of tax paid on inputs by companies.

❑ CONCLUSION

The impact of taxes on economic growth varies from one tax instrument to the other. In this context, it is possible to improve the economic efficiency of the tax system by changing the weighting of the various taxes that make it up, in other words by changing the tax mix.

Simulations made using the General Equilibrium Model of the ministère des Finances du Québec focus on the main tax instruments currently in use in Québec. The results show that a reduction in the capital tax has the greatest effects on economic growth. Personal income tax ranks second while corporate income tax takes third place. The other taxes (contributions to the Health Services Fund and QST) have relatively smaller effects.

THE GENERAL EQUILIBRIUM MODEL OF THE MINISTÈRE DES FINANCES DU QUÉBEC

The General Equilibrium Model of the ministère des Finances du Québec[13] is a dynamic multi-sector model that takes into account the characteristics and specific features of Québec in a Canadian and global context. The detailed model of the Québec economy is an appropriate instrument for studying the economic impacts of taxation.

Because it is dynamic, the GEMFQ takes into consideration the effects of capital accumulation, population and manpower changes, and technological progress. Other dynamic adjustment mechanisms are also taken into account, such as the change in the debt.

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[13] For more details, see the documents: *General Equilibrium Model of the ministère des Finances du Québec (GEMFQ): Characteristics and Structure of the Model*, *A Bi-regional Social Accounting Matrix for the General Equilibrium Model of the ministère des Finances du Québec (GEMFQ)* and *Offre de travail endogène et mobilité du capital dans un modèle d'équilibre général calculable birégional*, published by the ministère des Finances du Québec in its "Feuille d'argent" collection [on line] [www.finances.gouv.qc.ca/fr/ministere/carrieres/bourses/publications.asp].

Part I

List of tables, illustrations and charts

Table 1 The government's own-source revenue 1

Table 2 Overall cost of tax expenditures in 2006 25

Table 3 Cost of certain tax expenditures in 2006 28

Table 4 Change in overall cost of tax expenditures from 2001 to 2007 29

Table 5 Tax assistance for businesses – 2006 and 2007 32

Table 6 Cost of tax expenditures related to the personal income tax system 37

Table 7 Cost of tax expenditures related to the corporate tax system 49

Table 8 Cost of tax expenditures related to the consumption tax system 56

Table 9 Refundable tax credit for home maintenance of an older person – 2001 to 2004 60

Table 10 Refundable tax credit for home maintenance of an older person by recipient income – 2004 61

Table 11 Comparison of the distribution of tax revenues between Québec and G7 countries – 2003 64

Chart 1 Change in tax assistance for businesses – 2001 to 2007 31

Chart 2 Change in tax expenditures relating to consumption taxes – 2001 to 2007 . 34

Chart 3 Impact on real GDP per dollar of tax reduction 65

Illustration 1 Intervention tools available to the government 2

Illustration 2 Operation of tax expenditures 3

Part II

Description of tax expenditures

Part II

Table of contents

1. TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX SYSTEM 1

1.1 Replacement of some tax expenditures by a flat amount 1

1.2 Indexation of the income tax system as of January 1, 2002 4

1.3 Tax measures ensuring fairness 7

1.3.1 Support for families and work incentive 7

1.3.2 Tax credit relating to the flat amount of the simplified tax system 19

1.3.3 Minimum complementary amount included in the determination of the basic tax credit 20

1.3.4 Transfer of non-refundable tax credits not used by a spouse 21

1.3.5 Others tax measures promoting a progressive tax system 22

1.4 Tax measures with specific objectives 25

1.4.1 Agriculture and fisheries 25

1.4.2 Culture 29

1.4.3 Employment 33

1.4.4 Business and investment 40

1.4.5 Education 49

1.4.6 Developmental measures for the economy 53

1.4.7 Recognition of certain special situations 70

1.4.8 Retirement 77

1.4.9 Health 80

1.4.10 Income support 82

1.4.11 Other specific measures 87

1.5 Tax measures shown for information purposes 94

1.5.1 Basic tax credit 94

1.5.2 Employment insurance contributions 95

1.5.3 Parental insurance contributions 96

1.5.4 Contributions to the Québec Pension Plan 97

1.5.5 Non-inclusion of the Universal Child Care Benefit in the calculation of tax credits determined on the basis of income 97

1.5.6 Tax credit for union and professional dues 98

1.5.7 Deduction of certain employment-related expenses 98

1.5.8 Non-taxation of allowances paid to certain public officers 98

1.5.9 Non-taxation of indemnities paid to diplomats and other government employees stationed abroad 99

1.5.10 Deduction of expenses of an attendant and for support measures of handicapped persons 99

1.5.11 Expenses incurred to earn investment income 99

1.5.12 Dividend gross-up and tax credit 100

1.5.13 Non-taxation of capital dividends 101

1.5.14 Carry-over of farm losses of part-time farmers 101

1.5.15 Carry-over of farm and fishing losses 102

1.5.16 Capital loss carry-over 102

1.5.17 Carry-over of losses other than capital losses 102

1.5.18 Non-taxation of lottery and gambling earnings 102

1.5.19 Foreign tax credit 103

1.5.20 Credit for tax of another province 103

1.5.21 Amounts exempt from tax under a tax agreement 103

2. TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM 105

2.1 Income tax 105

2.1.1 Reduced tax rates and exemptions 105

2.1.2 Deductions 117

2.1.3 Tax credits 121

2.1.4 Deferrals 157

2.1.5 Other tax expenditures 162

2.1.6 Tax measures shown for information purposes 164

2.2 Tax on capital 168

2.2.1 Five-year tax holiday for new corporations 168

2.2.2 Tax holiday for international financial centres 169

2.2.3 Tax holiday for corporations carrying out an innovative project in the field of new information and communications technologies in certain designated sites 169

2.2.4 Tax holiday for corporations carrying out an innovative project in a biotechnology development centre 170
2.2.5 Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel 171
2.2.6 Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal 172
2.2.7 Tax holiday for major investment projects 173
2.2.8 Ten-year tax holiday for manufacturing SMEs in remote resource regions 174
2.2.9 Exemption of the first $1 million of paid-up capital 175
2.2.10 Deduction of one-third of the paid-up capital of mining corporations 175
2.2.11 Rate of 2% for life and health insurance premiums 175
2.2.12 Exemption for cooperatives 176
2.2.13 Exemption for corporations operating in the agriculture or fisheries sector 177
2.2.14 Inactive corporations with assets of less than $5 000 177
2.2.15 Exemption of government organizations, charities and other non-profit organizations 177
2.2.16 Mining corporation yet to reach the production stage 178
2.2.17 Deduction for the acquisition or conversion of ships 178
2.2.18 Deduction regarding certain inventory vehicles 178
2.2.19 Holiday from the tax on capital for new investments in certain sectors 179
2.2.20 Reduction in the paid-up capital of certain financial institutions 179
2.2.21 Capital tax credit regarding certain investments 180

2.3 Health Services Fund 181

2.3.1 Five-year tax holiday for new corporations 181
2.3.2 Tax holiday for international financial centres 181
2.3.3 Tax holiday for corporations carrying out an innovative project in the field of new information and communications technologies in certain designated sites 182
2.3.4 Tax holiday for corporations carrying out an innovative project in a biotechnology development centre 183
2.3.5 Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel 184

2.3.6 Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal 184
2.3.7 Tax holiday for major investment projects 185
2.3.8 Ten-year tax holiday for manufacturing SMEs in remote resource regions 186
2.3.9 Refundable credit of the employer contribution to the HSF for corporations located in E-Commerce Place 187

3. TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM 189

3.1 Québec sales tax 189
3.1.1 Zero-rated property and services 189
3.1.2 Exempt property and services 191
3.1.3 Tax rebates 193
3.1.4 Measures to facilitate QST administration 196
3.1.5 Other tax expenditures 198
3.1.6 Tax measures shown for information purposes 198

3.2 Tax on insurance premiums 199
3.2.1 Exemption with respect to an individual policy of insurance of persons 199
3.2.2 Reduction in the tax rate for automobile insurance 199
3.2.3 Exemption with respect to certain compulsory insurance plans 199

3.3 Fuel tax 200
3.3.1 Reduction in the rate of the tax in certain regions 200
3.3.2 Reduction in the rate of the tax for aircraft and railroad locomotives 201
3.3.3 Exemptions and refunds granted to farmers and fishers 201
3.3.4 Exemptions and refunds granted to the industrial sector 201
3.3.5 Exemption and refund granted to the aviation sector 202
3.3.6 Exemption for commercial vessels 202
3.3.7 Exemption for propane gas 202
3.3.8 Refund granted to farm, forest and mining businesses 202
3.3.9 Refund granted to public carriers 203
3.3.10 Refund regarding biodiesel fuel 203
3.3.11 Refund regarding fuel used to supply an engine for stationary purposes of the equipment of a vehicle 203

3.4 Tax on alcoholic beverages ... 204

3.4.1 Reduction in rates of the specific tax regarding beer sold by microbreweries ... 204

3.4.2 Reduction in rates of the specific tax regarding alcoholic beverages sold by small-scale producers ... 204

1. TAX EXPENDITURES RELATED TO PERSONAL INCOME TAX SYSTEM

1.1 REPLACEMENT OF SOME TAX EXPENDITURES BY A FLAT AMOUNT (1998 TO 2004)

For years 1998 to 2004, Québec taxpayers who make little use of tax expenditures could opt for the simplified tax system. Essentially, the simplified tax system replaced several deductions and non-refundable tax credits by a flat amount that was converted into a non-refundable tax credit.

For 1998, the flat amount is $2 350. For years following 1998, the flat amount corresponded to the greater of the flat amount allowed in calculating the tax otherwise payable for the preceding year (indexed as of 2002) and, subject to an adjustment to the nearest multiple of 5, the amount obtained by adding $250 to the total maximum contributions of an employee to the Québec Pension Plan (QPP) and employment insurance for the year.

The following table shows the flat amount allowed for 1998 to 2004 as well as the conversion rate used to determine the tax credit allowed for each of these years.

Table 1

TAX CREDIT RELATING TO THE FLAT AMOUNT

	1998	1999	2000	2001	2002	2003	2004
Flat amount	$2 350	$2 430	$2 515	$2 625	$2 780	$2 870	$2 925
Conversion rate	23%	23%	22%	20.75%	20%	20%	20%
Tax credit	$540.50	$558.90	$553.30	$544.70	$556	$574	$585

For years prior to 2003, the flat amount, in addition to replacing almost all the deductions the tax system allows in calculating a taxpayer's taxable income as well as various non-refundable tax credits, replaced many deductions allowed in calculating a taxpayer's net income. For 2003 and 2004, none of the deductions allowed in calculating net income was replaced by the flat amount.

The following table lists the deductions that were replaced by the flat amount in the order in which they are shown in this section and indicates the years for which the replacement is made.

Table 2

DEDUCTIONS REPLACED BY THE FLAT AMOUNT

Deductions in calculating net income or taxable income	Years replacement effective
Lifetime $500 000 capital gains exemption on farm assets	1998 to 2004
Lifetime $500 000 capital gains exemption on fishing assets	2002 to 2004
Deduction for an artist regarding copyright or similar royalties	1998 to 2004
Deduction for foreign producers	2001 to 2004
Deduction for a home relocation loan	1998 to 2004
Deduction for workers employed abroad	1998 to 2004
Deduction for a member of the Canadian Forces or a police officer on a mission	2004
Deductions for stock options granted to employees	1998 to 2004
Deduction for options to purchase units of a mutual trust fund	1998 to 2004
Deduction respecting the donation of securities acquired under a stock option	2000 to 2004
Deduction for eligible business investment losses	1998 to 2002
Lifetime $500 000 capital gains exemption on shares of small businesses	1998 to 2004
Tax holiday for foreign post-doctoral interns	1998 to 2004
Repayment of student loans contracted under the SLPW	1998 to 2002
Deduction for certain flow-through share issue expenses	1998 to 2004
Deduction for a Stock Savings Plan (SSP)	1998 to 2004
Flow-through shares - basic deduction of 100%	1998 to 2002
Flow-through shares - additional deductions	1998 to 2004
Deduction respecting Québec Business Investment Companies (QBICs)	1998 to 2004
Additional capital gains exemption for certain assets relative to resources	1998 to 2004
Deduction relating to the Cooperative investment plan	1998 to 2001
Tax holiday for foreign researchers (R&D)	1998 to 2004
Tax holiday for foreign experts	1999 to 2004
Tax holiday for Québec seamen	1998 to 2004
Tax exemptions for the employees of an international financial centre (IFC)	1998 to 2004
Tax holiday for foreign experts employed by a securities exchange or securities clearing corporation	2000 to 2004
Deduction for a member of a partnership that operates an IFC	1998 to 2004
Deduction for independent financial derivatives traders	2001 to 2004
Tax holiday for foreign specialists working for a corporation that carries out activities in the field of new information and communications technologies in certain designated sites	1998 to 2004
Tax holiday for foreign specialists working in certain designated biotechnology sites	2002 to 2004
Tax holiday for foreign specialists working in the nutraceutical and functional foods sector	2002 to 2004
Tax holiday for foreign specialists working at a corporation that carries out activities in a biotechnology development centre	2001 to 2004
Tax holiday for foreign specialists working in innovation centres	2002 to 2004
Tax holiday for foreign experts working in E-Commerce Place	2000 to 2004

Deductions in calculating net income or taxable income	Years replacement effective
Tax holiday for foreign specialists working in the e-business sector in certain designated sites	2002 to 2004
Tax holiday for foreign specialists working in the Montréal Foreign Trade Zone at Mirabel	1999 to 2004
Tax holiday for foreign professors	2000 to 2004
Deductions for inhabitants of remote regions	1998 to 2002
Deduction for alimony and support allowance	1998 to 2002
Deduction for employees of certain international governmental organizations	1998 to 2004
Deduction of moving expenses	1998 to 2002
Deferral of taxation of an eligible rebate	2002 to 2004
Deduction of certain expenses incurred to earn investment income	1998 to 2002
Carry-over of investment expenses	2004
Carry-over of farm losses of part-time farmers	1998 to 2004
Carry-over of farm and fishing losses	1998 to 2004
Capital loss carry-over	1998 to 2004
Carry-over of losses other than capital losses	1998 to 2004
Amounts exempt from tax under a tax agreement	1998 to 2002

The following table lists the non-refundable tax credits that were replaced by the flat amount in the order in which they are shown in this section and indicates the years for which the replacement is made.

Table 3

NON-REFUNDABLE TAX CREDITS REPLACED BY THE FLAT AMOUNT

Non-refundable tax credits	Years replacement effective
Tax credit for dues to artistic associations	1998 to 2004
Tax credit for tuition or examination fees	1998 to 2004
Tax credit regarding interest paid on a student loan	1998 to 2004
Tax credit for members of a religious order	1998 to 2002
Tax credit for medical expenses	1998 to 2002
Tax credits relating to medical care not provided in the region of residence	1998 to 2002
Tax credit for employment insurance contributions	1998 to 2004
Tax credit for contributions to the Québec Pension Plan	1998 to 2004
Tax credit for union and professional dues	1998 to 2004
Dividend tax credit	1998 to 2004
Foreign tax credit	1998 to 2002

Originally, the flat amount was supposed to replace 100 or so deductions and non-refundable tax credits. However, over the years, the number of deductions and tax credits replaced by the flat amount was considerably reduced, whether to redress unfairness, attain tax policy objectives or simply enable more taxpayers to take advantage of the simplified tax system. As a result, the simplified tax system was less and less different from the general tax system.

Hence, to avoid needlessly complicating the personal income tax system, the simplified tax system was eliminated as of taxation year 2005. However, to maintain the advantages represented by the flat amount for low- or middle-income taxpayers, a complementary amount is added, as of 2005, to the amount of recognized essential needs to form the basic amount granted for the purposes of calculating the basic tax credit.

1.2 INDEXATION OF THE INCOME TAX SYSTEM AS OF JANUARY 1, 2002

Since January 1, 2002, the main parameters of the personal income tax system have been indexed automatically.

For each of taxation years 2002 and 2003, the indexing factor used was equal to the percentage change in the average Québec consumer price index (QCPI) for the 12-month period ending on September 30 of the year preceding the one for which an amount was to be indexed, compared with the average QCPI for the 12-month period ending on September 30 of the year prior to the year preceding the one for which an amount was to be indexed. In 2004, the main parameters of the personal income tax system were indexed by 2%.

Starting in 2005, the index used corresponds to the percentage change in the overall average Québec consumer price index without alcoholic beverages and tobacco products (QCPI-WAT) for the 12-month period ending on September 30 of the year preceding the one for which an amount is to be indexed, compared with the average QCPI-WAT for the 12-month period that ended on September 30 of the year prior to the year preceding the one for which an amount is to be indexed.

The following table shows the indices used since 2002 to index the main parameters of the income tax system.

Table 4

INDEX USED TO INDEX THE PARAMETERS OF THE INCOME TAX SYSTEM

Year	Indexing factor	Year	Indexing factor
2002	2.6988%	2005	1.4273%
2003	1.4763%	2006	2.4275%
2004	2.00%	2007	2.20%[1]

(1) Estimated index for the year.

This indexing factor is generally applied, for a year, to the established value of indexed parameters in the previous taxation year.

Automatic indexing applies to all three taxable income brackets in the tax table and to the various family income brackets defined in the rate table used to calculate the refundable tax credit for child care expenses.

The other tax parameters that are automatically indexed are shown in the table below.

Table 5

TAX PARAMETERS SUBJECT TO AUTOMATIC INDEXATION
(Dollars per year)

Parameters	Initial amount[1]
Basic amount	
• Amount of recognized essential needs	5 900
• Minimum amount used to calculate complementary amount	2 965
Amount for a person living alone	1 050
Amount for spouse	5 900
Amount for severe and prolonged impairment in physical or mental functions	2 250
Amounts respecting dependants	
• Amount respecting dependent children	
– Child designated as the 1st child	2 600
– Subsequent children	2 400
– Single-parent family	1 300
• Amount respecting a child engaged in vocational training or postsecondary studies (per session, maximum two)	1 650
• Amounts respecting an adult child who is a student	
– Child designated as the 1st child	2 805
– Subsequent children	2 585
– Single-parent family	1 400
• Amount respecting other dependants	2 400
• Amount respecting other dependants with an infirmity	5 900
Reduction threshold for certain tax credits[2]	26 000
Parameters of certain refundable tax credits	
QST credit	
• Basic amount	154
• Amount for spouse	154
• Amount for a person living alone	103
Tax credit for individuals living in a northern village	
• Basic monthly amount	35
• Monthly amount respecting a spouse	35
• Monthly amount respecting a dependant child	15

Parameters	Initial amount[1]
Refundable tax credit for medical expenses	
• Maximum amount[3]	500
• Minimum earned income	2 500
• Reduction threshold	17 500
Refundable tax credit granting a work premium	
• Excluded income of designated dependant	6 365
Refundable tax credit for child assistance	
• Maximum basic amount for 1st child	2 000
• Maximum basic amount for 2nd child and 3rd children	1 000
• Maximum basic amount for a 4th child and subsequent children	1 500
• Maximum basic amount for a single-parent family	700
• Minimum basic amount for a first child	561
• Minimum basic amount for 2nd and subsequent children	517
• Minimum basic amount for a single-parent family	280
• Monthly allowance for a handicapped child[4]	121
Refundable tax credit for natural caregivers of adults	
• Basic amount	550
• Supplement reduced by income	450
• Reduction threshold	20 000
Parameters of the property tax refund	
• Maximum allowable taxes	1 285
• Taxes deducted per adult	430
• Reduction threshold	26 000

(1) The amounts shown correspond to the amounts that applied for 2001, except with respect to the minimum amount used to calculate the complementary amount, each of the amounts for adult children who is a student, the minimum earned income used for the purposes of calculating the refundable tax credit for medical expenses, the excluded income used for the purposes of calculating the refundable tax credit granting a work premium and each of the amounts used to calculate the refundable tax credit for child assistance that correspond to the amounts applicable for 2005 and with respect to the amount for severe and prolonged impairment in physical or mental functions and to each of the parameters of the refundable tax credit for natural caregivers of adults that correspond to the amounts applicable for 2006.

(2) Tax credit for persons living alone, with respect to age and for retirement income, tax reduction in respect of families, Québec sales tax (QST) credit and tax credit for individuals living in a northern village.

(3) The refundable tax credit for medical expenses was raised to $750 for 2005 and to $1 000 for 2006.

(4) In 2006, an amount of $37.50 was added to the amount obtained after indexing the amount of $121.

In general, if the result obtained by applying the indexing factor to a given parameter is not a multiple of 5, it is rounded off to the nearest multiple of 5, or, where it is halfway between two such multiples, rounded up the nearest multiple of 5.

However, adjustment is made to the nearest multiple of 1 or, if the result is equidistant between two multiples of 1, to the nearest higher multiple of 1, regarding the basic amount, the amount for spouse and the amount for a person living alone used for the purpose of calculating the QST tax credit, the monthly basic amount, amount for spouse and amount for a dependant used for the purpose of calculating the tax credit for individuals living in a northern village, the amounts used to calculate the refundable tax credit for child assistance, the basic amount and the supplement reduced on the basis of income used for the purpose of calculating the refundable tax credit for natural caregivers of an adult and, since 2005, the maximum amount used to calculate the refundable tax credit for medical expenses.

The flat amount that was allowed, until 2004, under the simplified tax system was also set so as to protect taxpayers' purchasing power.

1.3 TAX MEASURES ENSURING FAIRNESS

1.3.1 Support for families and work incentive

☐ TAX CREDITS REGARDING ESSENTIAL NEEDS

— **For spouse (1988 to 2002, was previously an exemption)**

For years prior to 2003, a taxpayer who provided for his spouse was entitled to a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900 (2001) and $6 060 (2002), which was reduced by the spouse's income. The amount thus reduced was converted into a tax credit at rates of 20.75% (2001) and 20% (2002).

For the purposes of this tax credit, the expression "spouse" means a married person, a *de facto* spouse of the opposite sex or the same-sex and, for 2002, a person in a civil union.

This tax credit was intended to ensure that the income devoted by taxpayers to meeting the essential needs of their spouse was not taxed, where their spouse is their dependant. It makes it possible to integrate income security transfers and taxation.

For 2001 and 2002, the tax credit for spouse was granted in conjunction with the general tax system. It could also be claimed in conjunction with the simplified tax system, if the person claiming the tax credit or the person for whom the tax credit was claimed died in the year.

Individuals who determined, for a year prior to 2003, their tax payable under the rules governing the simplified tax system and had a spouse at the end of such year, could claim a deduction, in calculating their tax payable, equal to the amount of non-refundable tax credits their spouse did not use to eliminate their tax payable under the rules governing this system.

Starting in 2003, the tax credit for spouse was replaced by a mechanism for the transfer of the unused portion of non-refundable tax credits between spouses.

— For a person living alone (1988, existed as an exemption in 1987 only)

The tax system grants a non-refundable tax credit to a person living alone or only with dependent children, calculated on the basis of an amount of recognized essential needs of $1 050 that is automatically indexed since 2002, that reduces with income.

For the purposes of calculating this tax credit, the recognized amount for a person living alone must be combined with the $1 000 for retirement income and $2 200 in respect of age and the combined amount is reduced only once. The rate of this reduction is 15% for each dollar of the taxpayer's family income, i.e. the taxpayer's net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (this amount is automatically indexed as of 2002).

The total of these amounts thus reduced is converted into a tax credit at the conversion rate stipulated for the year.

To receive this tax credit for a year, a person must ordinarily live throughout the year or throughout the portion of the year preceding the time of death, a self-contained domestic establishment he maintained and in which no one, other than a dependent child or, as of 2005, a minor person or a person regarding whom he is entitled to claim a tax credit respecting an adult child who is a student, lived during that period.

Table 6

PARAMETERS USED TO DETERMINE THE TAX CREDIT FOR PERSONS LIVING ALONE

	2001	2002	2003	2004	2005	2006	2007[1]
Recognized amount	$1 050	$1 080	$1 095	$1 115	$1 130	$1 155	$1 180
Reduction threshold	$26 000	$26 700	$27 095	$27 635	$28 030	$28 710	$29 340
Conversion rate	20.75%	20%	20%	20%	20%	20%	20%

(1) Parameters subject to indexation have been adjusted using an estimated index of 2.2%.

The tax credit for a person living alone is intended to recognize the additional needs, compared with those of a two-adult household, arising from the occupation of a dwelling or a residence by a person living alone or a single-parent family, e.g. rent, telephone expenses, electricity and other expenses that couples can share.

— For dependent children

The tax system grants a non-refundable tax credit to a taxpayer with one or more dependent children, calculated on the basis of a set of amounts of recognized essential needs for each dependent child, from which the child's income must be subtracted.

The amount of the tax credit for dependent children is obtained by applying the conversion rate stipulated for the year to the total of the amounts thus calculated for each child.

• *Amounts for dependent children (1988 to 2004, existed previously as an exemption) and amounts for adult children who are students (2005)*

An amount of recognized essential needs of $2 600, automatically indexed as of 2002, is allowed for a dependent child of a family designated as the first child, regardless of the child's rank in the family. For each of the family's other children, an amount of recognized essential needs, $2 400, automatically indexed as of 2002, is allowed.

For years prior to 2005, a person is considered a child giving rise to an amount of recognized essential needs, if the person is their or their spouse's child, grandchild, sister, brother, niece or nephew and is under 18 years of age, or is 18 or over and a full-time student.

As of 2005, only a child of a taxpayer or his spouse who is 18 or over and pursues in full-time basis recognized studies in vocational training or recognized studies at the postsecondary level can give rise to recognized essential needs, considering the fact that the recognized essential needs of children under 18 are covered by the refundable tax credit for child assistance.

In addition, a taxpayer may not, for a year after 2004, designate a child as first child if, at the end of such year, he or his spouse is entitled to the refundable tax credit for child assistance.

Accordingly, the amount of recognized essential needs for a child who turns 18 during a year after 2004 must be reduced by an amount equal to the proportion of this amount represented by, in relation to 12, the number of months in the year during which he was, at any time, under 18.

This component of the tax credit for dependent children is intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of his dependent children.

- ***Amount for the first child of a single-parent family (1988, was previously an exemption)***

An amount of recognized essential needs of $1 300, subject to automatic indexing as of 2002, is allowed for the child of a single-parent family designated as the first child for the purpose of the tax credit for dependent children.

As of 2005, the amount of recognized essential needs for a child who turns 18 during the year must be reduced by an amount equal to the proportion of this amount represented by, in relation to 12, the number of months in the year during which he was, at any time, under 18.

When the conditions required to qualify as a single-parent family are not satisfied for part of the year, the amount of recognized essential needs that is granted for a child for the year must also be reduced by an amount equal to the proportion of this amount represented by, in relation to 12, the number of months in the year during all of which the required conditions were not satisfied.

This component of the tax credit for dependent children recognizes the greater essential needs of the first dependent child in a single-parent family in relation to the needs of the first child of a couple (50% higher) and shields from taxation the income that the head of a single-parent family devotes to covering these additional expenses.

- ***Amount for children engaged in vocational training or post-secondary studies (1988, previously existed as an exemption since 1986)***

An amount of recognized essential needs of $1 650, automatically indexed as of 2002, is allowed for a dependent child engaged in full-time studies in vocational training or post-secondary studies for each session completed during a year (maximum of two).

For years prior to 2005, this component of the tax credit for dependent children is allowed in respect of a person who is the child, grandchild, sister, brother, niece or nephew of an individual or of his spouse. As of 2005, only the child of the individual or of his spouse can give rise to this component.

To give rise to this amount, the child must be engaged in full-time studies at an educational institution designated by the Minister of Education, Recreation and Sports, for the purposes, under the *Act respecting financial assistance for education expenses*, of the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the post-secondary level, where he is enrolled either in an education program recognized by the Minister where the institution is located in Québec, or in a college or university-level educational program where the institution is located outside Québec.

As of 2005, a child with a major functional deficiency within the meaning of the *Regulation respecting financial assistance for educational expenses* who pursues studies, in a year, on a part-time basis because of his deficiency, is deemed to pursue his studies on a full-time basis during such year.

This component of the tax credit for dependent children is intended to provide tax relief to parents whose children are engaged in secondary vocational studies or post-secondary studies, by recognizing that such children's financial needs are essentially the same as those of an adult.

Table 7

PARAMETERS USED TO DETERMINE THE TAX CREDIT RESPECTING DEPENDENT CHILDREN

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**[1]
Amount for child designated as the 1st child	$2 600	$2 670	$2 710	$2 765	$2 805	$2 875	$2 940
Amount respecting other children	$2 400	$2 465	$2 500	$2 550	$2 585	$2 650	$2 710
Amount respecting a single-parent family	$1 300	$1 335	$1 355	$1 380	$1 400	$1 435	$1 465
Amount for children engaged in vocational training or post-secondary studies (per session)	$1 650	$1 695	$1 720	$1 755	$1 780	$1 825	$1 865
Conversion rate	20.75%	20%	20%	20%	20%	20%	20%

(1) Parameters subject to indexation have been adjusted using an estimated index of 2.2%.

— For other dependants (1988, existed previously as an exemption)

The tax system grants a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $2 400 automatically indexed as of 2002, to an individual with a dependant, other than his spouse, 18 years old or over to whom he is related by blood ties, marriage or adoption. The amount of the dependant's recognized essential needs, from which the dependant's income must be subtracted, is converted into a tax credit by applying the conversion rate stipulated for the year to the amount thus reduced.

However, where such a person is the individual's dependent because of a mental or physical infirmity, this tax credit was replaced, for years prior to 2006, by a non-refundable tax credit calculated on the basis of an amount of recognized essential needs of $5 900, automatically indexed as of 2002, from which the dependant's income must be subtracted. To better recognize the role played by extended families in supporting persons with a severe and prolonged impairment or aging persons, the tax credit for other dependants because of an infirmity, like the other fiscal measures intended for natural caregivers of adults, was replaced, as of 2006, by the refundable tax credit for natural caregivers of an adult.

As of 2005 and subsequent years, the amount of recognized essential needs for a person who turns 18 in the course of the year must be reduced by an amount equal to the proportion of this amount represented by, in relation to 12, the number of months in the year during which he was under 18, taking into account the fact that the recognized essential needs of persons under 18 are covered by the refundable tax credit for child assistance.

These tax credits are intended to avoid taxing the income that a taxpayer devotes to satisfying the essential needs of a person 18 years of age or over who is a dependant.

Table 8

PARAMETERS USED TO DETERMINE THE TAX CREDIT RESPECTING OTHER DEPENDANTS

	2001	2002	2003	2004	2005	2006	2007[1]
Amount respecting other dependants	$2 400	$2 465	$2 500	$2 550	$2 585	$2 650	$2 710
Amount respecting other dependants with infirmity	$5 900	$6 060	$6 150	$6 275	$6 365	n/a	n/a
Conversion rate	20.75%	20%	20%	20%	20%	20%	20%

(1) The amount respecting other dependants has been adjusted using an estimated index of 2.2%.

❑ REFUNDABLE TAX CREDIT FOR CHILD ASSISTANCE (2005)

Granted since 2005, the refundable tax credit for child assistance is a key component of Québec's assistance for families. This tax credit, which replaces family allowances, non-refundable tax credits for dependent children under age 18 and for the first child of a single-parent family and the tax reduction for families, is paid quarterly no later than the 15th day of January, April, July and October or, on request, monthly no later than the 15th day of each month.

This tax credit consists of non-taxable assistance with two components: the child assistance payment and the supplement for handicapped children.

The child assistance payment is calculated in two steps. The first step consists in determining the maximum amount to which an individual may be entitled. This amount is equivalent to the total, as the case may be, of the amounts shown in the following table (which are automatically indexed).

Table 9

MAXIMUM AMOUNT OF THE CHILD ASSISTANCE PAYMENT

(Dollars)

	2005	2006	2007[1]
First child	2 000	2 049	2 094
Second and third children	1 000	1 024	1 047
Fourth child and subsequent children	1 500	1 536	1 570
Single-parent family	700	717	733

(1) Maximum amounts have been adjusted using an estimated index of 2.2%.

The second step consists in reducing, as the case may be, the maximum amount in light of the individual's family income (i.e. the total of the individual's income and that of his qualified spouse). This reduction is made at a rate of 4% for each dollar of the individual's family income in excess of $42 800 if the individual has a qualified spouse or $31 600 in other cases. As of 2006, the reduction threshold of the child assistance payment applicable to a two-parent family and that applicable to a single-parent family are adjusted to correspond, respectively, to the exit threshold of the tax credit granting a work premium (i.e. the income from which a household is no longer eligible to receive the work premium) that is applicable, for the year, to a couple with children and to a single-parent family.

However, the child assistance payment an individual can receive may in no case be less than the minimum amount established for him. This minimum amount is equal to the total, as the case may be, of the amounts shown in the following table (which are automatically indexed).

Table 10

MINIMUM AMOUNT OF THE CHILD ASSISTANCE PAYMENT

(Dollars)

	2005	2006	2007[1]
First child	561	575	588
Second child and subsequent children	517	530	542
Single-parent family	280	287	293

(1) Minimum amounts have been adjusted using an estimated index of 2.2%.

Furthermore, if an individual has a handicapped child, a supplement is added to the child assistance payment to which the individual is entitled. This handicapped child supplement corresponds to $121 per month (automatically indexed) for each handicapped child.

A child may give entitlement to the supplement for handicapped children if the child has an impairment or a development disorder that considerably restricts his or her everyday activities and that is expected to last at least one year, in accordance with the rules established by regulation.

To standardize the tax assistance available regarding children under 18 with a serious handicap and facilitate accessibility to the assistance, the non-refundable tax credit for a dependent child with a severe and prolonged impairment in physical or mental functions has been replaced, as of 2006, by an improved supplement for handicapped children. For 2006, the supplement for handicapped children has been raised, after indexing, by $37.50 per month to $161.50 per month.

For 2007, using an estimated index of 2.2%, the supplement for handicapped children will be $165 per month.

The refundable tax credit for child assistance is intended to grant financial assistance to families to help them satisfy the needs of their children under 18.

☐ ALLOWANCES FOR NEW-BORN CHILDREN (1988 TO 2002)

For 2001 and 2002, families with a third or later child born after February 28, 1994 and before October 1, 1997 or, if born during this period, adopted no later than September 30, 1997, could receive an allowance for new-born children consisting of a refundable tax credit.

This allowance, which could reach $8 000, was paid as a maximum of twenty quarterly payments of $400 each during the first five years following the birth of a child or, in the case of an adopted child, until he reaches age five.

This measure was intended to offset part of the cost related to the arrival of a third or later child in a family and to increase financial support for large families.

☐ REFUNDABLE TAX CREDIT FOR ADOPTION EXPENSES (1994)

An individual who adopts a child is entitled to a refundable tax credit equivalent to 30% of the eligible adoption expenses that he or his spouse pays if the adoption process is completed. However, the amount of adoption expenses eligible for this tax credit was limited to $20 000. The amount of the tax credit available to an individual who adopts a child can reach $6 000.

Eligible adoption expenses include, among others, judicial and extrajudicial costs incurred to obtain an eligible decision regarding the adoption of a child, travel expenses incurred by the adoptive parents, expenses relating to the translation, where applicable, of documents pertaining to the adoption and amounts charged by the foreign institution having supported the child.

The refundable tax credit for adoption expenses is intended to recognize the contribution of adopting families to Québec society.

☐ REFUNDABLE TAX CREDIT FOR THE TREATMENT OF INFERTILITY (2000)

An individual who seeks certain medical treatments to become a parent is entitled to a refundable tax credit equal to 30% of costs associated with artificial insemination or *in vitro* fertilization paid by him or his spouse. However, the amount of the expenses that qualify for this tax credit is limited to $20 000. The amount of the tax credit available to an individual who uses medical means to become a parent can reach $6 000.

The expenses that qualify for this tax credit include, in particular, amounts paid to a physician or a licensed private hospital and amounts paid for medication prescribed by a physician and recorded by a pharmacist for artificial insemination or *in vitro* fertilization treatments.

The refundable tax credit for the treatment of infertility is designed to recognize the costs borne by infertile couples who wish to start a family.

☐ TAX REDUCTION IN RESPECT OF FAMILIES (1988 AND 1997 TO 2004)

For years prior to 2005, a tax reduction, the amount of which declined gradually beyond a certain income threshold, was granted to families with at least one child. The maximum amount of this tax reduction was $1 500, in the case of a couple and $1 195 in the case of a single-parent family.

This maximum amount was reduced at the rate of 3% for each dollar of the individual's family income, i.e. the individual's net income and, as the case may be, that of his eligible spouse determined, for 2001 and 2002, according to the rules governing the simplified tax system, that exceeds $26 000 (2001), $26 700 (2002), $27 095 (2003) and $27 635 (2004).

This measure that, since 2005, has been replaced by the refundable tax credit for child assistance, was intended to encourage low-income earners with dependent children to enter and remain on the labour market.

☐ REFUNDABLE TAX CREDIT GRANTING A WORK PREMIUM (2005)

Since 2005, low- or middle-income workers can claim a work premium that consists of a refundable tax credit.

The tax credit is calculated in two steps. The first step consists in determining the maximum work premium to which an individual may be entitled to depending on his family situation. This maximum premium is obtained by applying the rate determined to the excess, over excluded work income, of the lesser of the work income of the individual's household and the reduction threshold applicable for the year. In this regard, the work income of the individual's household means, briefly, the income of the individual and, as the case may be, that of his eligible spouse from an office or employment or from carrying on a business.

Table 11

PARAMETERS USED TO DETERMINE THE MAXIMUM WORK PREMIUM FOR 2005

	Single person	**Childless couple**	**Single-parent family**	**Couple with children**
Determinate rate	7%	7%	30%	25%
Excluded work income	$2 400	$3 600	$2 400	$3 600
Reduction threshold of work premium	$9 700	$14 800	$9 700	$14 800
Maximum recognized premium	$511	$784	$2 190	$2 800

The second step consists in reducing, as the case may be, the amount of the maximum work premium established for an individual depending on his total income, i.e. the individual's net income plus, if applicable, the net income of his eligible spouse and the portion, in excess of $6 365 (this amount is automatically indexed as of 2006), of the designated dependant's net income for the purposes of this measure.

This reduction applies at a rate of 10% for each dollar of the individual's total income in excess of the reduction threshold of the work premium applicable to the individual's family situation.

As of 2006, the reduction thresholds of the work premium are reassessed on an annual basis according to rules determined by regulation. According to these rules, the reduction threshold applicable to a typical household for a given year will correspond to the higher of the reduction threshold that applied to such household for the year preceding the given year and the amount established to represent the exit threshold for employment assistance of recipients without a limited capacity for employment.

Further to the application of these rules for 2006, the reduction threshold of the work premium for a household with a single adult rose to $9 720, while the threshold applicable to a household with two adults rose to $14 884.

The refundable tax credit granting a work premium, which replaces the Parental Wage Assistance Program,[1] is intended to support and reward work effort and encourage people to leave social assistance and enter the labour market.

☐ REFUNDABLE TAX CREDIT FOR CHILD CARE EXPENSES (1994, EXISTED PREVIOUSLY AS A DEDUCTION)

Child care expenses paid to enable an individual or another supporting person of a child (usually the individual's spouse) to work or study or actively seek employment, can be converted into a refundable tax credit at a rate that is established according to the individual's family income, i.e. the individual's net income and that of his spouse calculated, for years prior to 2003, according to the rules of the simplified tax system.

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[1] The Parental Wage Assistance Program (PWAP), administered by the ministère de l'Emploi, de la Solidarité sociale et de la Famille, was a component of Québec's income support system.

For 2001, if an individual's family income does not exceed $27 000, the applicable rate was 75%. Thereafter, the rate fell by one percentage point per $1 000 of income, as long as the individual's family income did not exceed $75 000. When the individual's family income exceeded $75 000, the rate applicable for purposes of calculating the tax credit was 26%. For years after 2001, each of the fifty family income brackets used to determine the rate of the tax credit is automatically indexed. Accordingly, when an individual's family income does not exceed $27 730 (2002), $28 140 (2003), $28 705 (2004), $29 115 (2005), $29 820 (2006) and $30 475 (2007)[2], the applicable rate is 75%, this rate declining at the rate of one percentage point, reaching 26% when family income exceeds $77 025 (2002), $78 160 (2003), $79 725 (2004), $80 865 (2005), $82 830 (2006) and $84 650 (2007)[3].

All expenses incurred to provide an eligible child (i.e. a child who is under 16 years of age during the year or who is a dependant because of a mental or physical impairment) with child care services offered by an individual, a day care centre, a boarding school or a resident camp are, subject to certain exclusions, deemed to be eligible child care expenses. These exclusions include the reduced parental contribution set by the government that is paid, among others, to a child-care centre, a home child-care service or, for school-age children (kindergarten and elementary school), child-care services provided at school, where the child uses these services regularly on school days or uses them on pedagogical days (other than the reduced contribution set as of the 2006-2007 school year for the care of school-age children (kindergarten and elementary school) who use, for the spring break, school daycare services).

However, the amount of child care expenses eligible for this tax credit is subject to certain limits. On the one hand, it may not exceed the total of the following amounts:

- $10 000 per eligible child with a severe and prolonged mental impairment in physical or mental functions;
- $7 000 per eligible child under 7 years of age at the end of the year (other than a child with a severe and prolonged impairment in physical or mental functions);
- $4 000 for any other eligible child.

On the other hand, when an individual is the only person to assume the cost of a child's maintenance, the amount of eligible child care expenses is limited by the individual's earned income. Otherwise, the amount of such expenses is limited by the earned income of the person assuming the cost of the child's maintenance that is the lowest, unless the income in question is earned by a person suffering from certain disabilities or engaged in studies.

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[2] Adjusted using an estimated index of 2.2%.

[3] Adjusted using an estimated index of 2.2%.

Essentially, for the application of this tax credit, earned income comprises labour income, scholarships and research grants, amounts received under a government employment incentive program, disability benefits and employment insurance benefits. However, earned income may be replaced by net income to serve as a limit on the amount of eligible child care expenses if the taxpayer or the person assuming the cost of the child's maintenance is engaged in studies.

The person assuming the cost of the child's maintenance whose earned income is the lowest need not necessarily claim the refundable tax credit for child care expenses. The total amount of each spouse's eligible child care expenses is covered by a single tax credit that may be shared by them.

The tax credit for child care expenses is intended essentially to recognize the work-related expenses of parents and those relating to continuing studies.

1.3.2 Tax credit relating to the flat amount of the simplified tax system (1998 to 2004)

Until 2004, taxpayers who made little use of tax expenditures could opt for the simplified tax system. Essentially, the simplified tax system stipulated the replacement of many deductions and non-refundable tax credits by a flat amount that was converted into a non-refundable tax credit at rates of 20.75% (2001) and 20% (2002 to 2004).

Tables 2 and 3 list the deductions and non-refundable tax credits that were replaced by the flat amount.

Among the deductions and non-refundable tax credits that were replaced by the flat amount, the tax credit for employee contributions to the Québec Pension Plan (QPP) and the tax credit for employee contributions to employment insurance were, for many taxpayers, the only two tax credits they had to forego to use the simplified tax system. The other deductions and non-refundable tax credits replaced by the flat amount generally affected few taxpayers.

For 2001, the flat amount corresponded, subject to an adjustment to the nearest multiple of 5, to the amount obtained by adding $250 to the total maximum contributions of an employee to the QPP and employment insurance for the year. The flat amount that stood at $2 625 for that year, was converted into a non-refundable tax credit at the rate of 20.75%.

Starting in 2002, to protect taxpayers' purchasing power, the flat amount, for a year, corresponded to the greater of the following amounts, adjusted to the nearest multiple of 5:

- the amount obtained by multiplying the flat amount allowed in the calculation of tax otherwise payable for the preceding year by the indexing factor applicable for the year;
- the amount obtained by adding $250 to the total of an employee's maximum QPP contributions and maximum employment insurance contributions for the year.

The flat amount thus determined ($2 780 in 2002, $2 870 in 2003 and $2 925 in 2004) was converted into a non-refundable tax credit at the rate of 20%.

Originally, the flat amount was supposed to replace 100 or so deductions and non-refundable tax credits. However, over the years, the number of deductions and tax credits replaced by the flat amount has been considerably reduced, whether it be to redress unfairness, attain tax policy objectives or simply enable more taxpayers to take advantage of the simplified tax system. As a result, the simplified tax system was less and less different from the general tax system.

Hence, to avoid needlessly complicating the personal income tax system, the simplified tax system was eliminated as of 2005. However, to maintain the advantages represented by the flat amount for low- or middle-income taxpayers, a complementary amount is added, as of 2005, to the amount of recognized essential needs to form the basic amount allowed for the purposes of calculating the basic tax credit.

1.3.3 Minimum complementary amount included in the determination of the basic tax credit (2005)

Since 2005, a complementary amount is added to the amount of recognized essential needs of an individual to form the basic amount allowed for the purposes of calculating the basic tax credit. The tax reduction allowed by this tax credit represents 20% of the basic amount.

The complementary amount corresponds to the greater of a minimum amount of $2 965 (2005), $3 035 (2006) and $3 100 (2007)[4] – subject to automatic indexing – and the total of the following amounts:

- the amount payable by the individual for the year as employee premiums for employment insurance;

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[4] Adjusted using an estimated index of 2.2%.

- the amount payable by the individual for the year (as of 2006) on account of the employee contribution to the Québec parental insurance plan;
- the amount payable by the individual for the year as employee premiums for the Québec Pension Plan or an equivalent plan;
- the amount corresponding to 50% of the amount payable for the year by the individual as contributions on self-employment income to the Québec Pension Plan or an equivalent plan;
- the portion of the amount payable by the individual for the year (as of 2006) as contributions on self-employment income to the Québec parental insurance plan represented by the ratio between the rate for determining the premium of an employee and the rate for determining the premium of a self-employed worker for the year;
- the amount payable for the year by the individual for the purposes of the 1% contribution to the Health Services Fund.

The minimum complementary amount in excess of the total recognized contributions payable by an individual for employment insurance, the Québec parental insurance plan (as of 2006), the Québec Pension Plan – including any equivalent plan – and the Health Services Fund is designed, following the elimination of the simplified tax system, to allow all taxpayers the benefits provided by the flat amount.

1.3.4 Transfer of non-refundable tax credits not used by a spouse (1998 and 2003)

For 2001 and 2002, an individual who determined his tax payable according to the rules of the simplified tax system could deduct, in the calculation of his tax payable, the amount of non-refundable tax credits that his spouse had not used in order to eliminate his tax payable, provided that the spouse's tax payable was determined according to the same rules.

The following non-refundable tax credits were taken into consideration in respect of the application of this transfer:

- basic tax credit;
- the tax credit relative to the flat amount;
- tax credit for dependent children;
- tax credits for other dependants;
- tax credit with respect to age, for a person living alone and for retirement income;

- tax credit for a person suffering from a severe and prolonged impairment in physical or mental functions;
- tax credit for donations;
- tax credit for contributions to authorized political parties;
- tax reduction in respect of families;
- the tax credit relating to a labour fund;
- tax credit in respect of the acquisition of shares of Capital régional et coopératif Desjardins.

This tax shifting was intended to allow households that benefited little from tax expenditures to take full advantage of the non-refundable tax credit granted.

Starting in 2003, an individual can deduct, in calculating his tax payable, the portion of non-refundable tax credits, other than that attributable to the deduction for alternative minimum tax, which cannot be used to reduce the income tax otherwise payable by the individual's eligible spouse.

The transfer of the unused portion of non-refundable tax credits from one spouse to another is designed to enable households to take full advantage of the non-refundable tax credits to which each spouse in a couple is entitled.

1.3.5 Others tax measures promoting a progressive tax system

☐ PROPERTY TAX REFUND (1979)

Part of the property taxes, i.e. municipal and school taxes paid by the owner-occupant, tenant or sub-tenant of an eligible dwelling and which are included in the rent of tenants or sub-tenants, may be subject to a refund equivalent to 40% of the portion of the total of such taxes that exceeds $430 per adult, which is automatically indexed as of 2002.

However, the amount thus calculated may not exceed 40% of the maximum eligible taxes, set at $1 285 (automatically indexed as of 2002). Moreover, the amount of the property tax refund is reduced at the rate of 3% for each dollar of the individual's family income (i.e. the individual's net income and, as the case may be, that of his eligible spouse, determined, for years prior to 2003, according to the rules of the simplified tax system) in excess of a single threshold of $26 000 (automatically indexed as of 2002).

Table 12

PARAMETERS USED TO DETERMINE THE PROPERTY TAX REFUND

(Dollars)

	2001	2002	2003	2004	2005	2006	2007[1]
Amount per adult	430	440	445	455	460	470	480
Amount of eligible taxes	1 285	1 320	1 340	1 365	1 385	1 420	1 450
Reduction threshold	26 000	26 700	27 095	27 635	28 030	28 710	29 340

(1) The parameters have been adjusted using an estimated index of 2.2%.

The property tax refund makes it possible to reduce the property tax burden supported by low- or middle-income taxpayers living in communities where the local tax burden is relatively high.

☐ RETROACTIVE FLAT PAYMENTS (1990)

An individual who receives certain flat payments, part or all of which pertain to a previous year, may use a special mechanism to calculate the tax payable on these payments. The mechanism makes it possible to pay the tax in respect of these retroactive payments as if they had been received during the year to which they pertain.

To qualify for this mechanism, the retroactive payments received in a year must total at least $300 and represent a benefit paid under the *Act respecting the Québec Pension Plan*, the *Canada Pension Plan* or the federal employment insurance legislation, support payment arrears, a pay adjustment payment paid in accordance with the special pay equity rules stipulated in the *Act respecting municipal territorial organization*, employment income received pursuant to a judgement, arbitration ruling or contract by which the parties settle a lawsuit or any other similar retroactive payment which, if taxed in the year it is received, would result in an undue additional tax burden.

In addition, as of 2004, to qualify for this mechanism, retroactive payments must pertain to an eligible prior year and an amount corresponding to the interest that would have been payable on the additional amount of tax is added to the tax payable for the year. An eligible prior year is, in particular, a year throughout which the taxpayer was a resident of Canada, other than a year ending in a calendar year during which the taxpayer declared bankruptcy.

This measure allows taxpayers to pay, in respect of the foregoing retroactive payments, the taxes they would have had to pay had the payments been received and taxed continuously during each of the years in which they were payable. The addition of an amount in lieu of interest takes into account the delayed collection of such tax.

☐ REFUNDABLE TAX CREDIT FOR THE QUÉBEC SALES TAX (QST) (1991)

An individual may take advantage of a refundable tax credit for the QST, the calculation of which is carried out in two steps. The first step consists in determining the maximum amount of the tax credit to which the individual may be entitled in light of his family circumstances. This amount is equivalent to the total, as the case may be, of the amounts indicated in the following table.

Table 13
MAXIMUM AMOUNT OF THE TAX CREDIT FOR THE QST
(Dollars)

	2001[1]	2002	2003	2004	2005	2006	2007[2]
Basic amount	154	158	160	163	165	169	173
Amount for spouse	154	158	160	163	165	169	173
Amount for a person living alone	103	106	108	110	112	115	118

(1) When the amount determined for taxation year 2000 in respect of an individual exceeded zero, or would have exceeded zero in a case where the individual was an income security recipient, if the monthly instalments of the QST tax credit received in advance had not been applied in deduction, that individual received an increase in the amount of $200 if he had a spouse at the end of 2000, or an increase of $100 in any other case.

(2) The parameters have been adjusted using an estimated index of 2.2%.

The second step consists in reducing, as the case may be, the maximum amount in light of household income. This amount is reduced at a rate of 3% for each dollar of the individual's family income, i.e. the individual's net income and, as the case may be, that of his eligible spouse determined, for years prior to 2003, according to the rules governing the simplified tax system, which exceeds a single threshold of $26 000 (2001), $26 700 (2002), $27 095 (2003), $27 635 (2004), $28 030 (2005), $28 710 (2006) and $29 340 (2007)[5].

The tax credit is generally granted to individuals who, at the end of the taxation year, are age 19 or over and resident in Québec.

The tax credit for the QST makes it possible to compensate low- or middle-income taxpayers for the increase in their tax burden arising in particular from the broadening in 1991 and 1992 of the consumption tax base. This tax credit is intended to alleviate the consumption tax burden that these taxpayers bear and thus ensure the progressive nature of the tax system.

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[5] Adjusted using an estimated index of 2.2%.

1.4 TAX MEASURES WITH SPECIFIC OBJECTIVES

1.4.1 Agriculture and fisheries

☐ CASH ACCOUNTING METHOD (1972)

Taxpayers engaged in farming or fishing can choose, for the purposes of establishing their business income, to use accrual accounting or cash accounting while, as a general rule, other taxpayers carrying on a business must use accrual accounting. Accordingly, taxpayers engaged in farming or fishing may elect to include their income when it is received instead of when it is earned and to deduct their expenses when they pay the corresponding amounts instead of when their consideration is used in conjunction with the enterprise.

Using accrual accounting makes it possible to defer the inclusion in income and immediately deduct prepaid expenses. In the reference fiscal framework, income is taxable when earned and expenses are deductible for the period to which they pertain.

This measure is intended to simplify the tax returns of taxpayers engaged in agriculture and fishing and to increase their cash on hand. It also allows these taxpayers a degree of latitude not available under accrual accounting to spread tax charges over a long period.

☐ FLEXIBILITY IN ACCOUNTING FOR INVENTORY (1972)

Taxpayers engaged in farming and using the cash accounting method may diverge from it with respect to their inventories. To enable these taxpayers to balance their farm business income over a given period, they may add to their income a discretionary amount not exceeding the fair market value of their crop inventories at the end of the year, which must be deducted from their income the following year.

In the case of farmers whose inventories decrease from year to year, this measure is intended to allow them to avoid creating losses, which, were they carried over, would fall under the 10-year carry-over deadline and could be lost. Such tax treatment also offers the possibility of spreading a farmer's taxable income over time, bearing in mind the considerable price fluctuations for certain farm products.

☐ DEFERRAL OF CAPITAL GAINS

— Deferral of capital gains on farm or fishing assets passed on to children (1972 and 2006)

Assets sold or given to children, grandchildren or great-grandchildren usually give rise to taxable capital gains insofar as their fair market value exceeds the adjusted cost base. Any transfer of property between persons not at arm's length must, in general, be made at the fair market value of the property at the time of the transfer. Consequently, any increase in the value of the property from the time of its acquisition until the time of the transfer results in a capital gain for the person making the transfer.

However, under certain circumstances, capital gains on the transfer of farm assets between generations are only subject to tax when the assets are ultimately transferred to a person who does not belong to the immediate family. For the purposes of this measure, a farm asset can be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or land or a depreciable asset used to operate an unincorporated farm or a farm that is not operated as a partnership.

Similarly, under certain conditions, the capital gain on the transfer of fishing assets between generations realized after May 2, 2006, may be covered by a deferral of tax. For the purposes of this measure, a fishing asset means a share of the capital stock of a family fishing company, a participation in a family fishing partnership, land, depreciable property or an eligible immovable used mainly in the course of a fishing business carried on in Canada.

This measure is intended to foster the transmission of farm or fishing assets between members of the same family.

— Deferral attributable to the 10-year reserve for capital gains on the sale to children of farm or fishing assets (1981 and 2006)

When the proceeds from the sale of farm or fishing assets to an individual's descendant are not to be fully received in the year of the sale, the taxation of a portion of the gain may be deferred until the year in which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which creates a reserve period of not more than 10 years.

In general, income from all other assets, except the shares of a corporation operating a small enterprise that enjoy the same privilege as farm and fishing assets, must be included within a maximum of five years at the rate of 20% a year.

This measure is intended to foster the transmission of this type of assets between generations through the gradual taxation of the capital gain, which may be spread over 10 years. Initially reserved for farm assets, it was extended to fishing assets in the case of sales made after May 2, 2006.

Furthermore, since 1997, the maximum amount of the reserve that may be claimed as a deduction in the calculation of an individual's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

❑ EXEMPTION FROM PAYING QUARTERLY INSTALMENTS (1972)

Individuals operating a farming or fishing enterprise are required to pay ⅔ of the estimated tax payable at the end of the year and the remainder by April 30 of the following year, at the latest, contrary to other individuals earning business income, who must pay quarterly instalments.

❑ LIFETIME $500 000 CAPITAL GAINS EXEMPTION ON FARM ASSETS (1986)

A lifetime $500 000 capital gains exemption is allowed with respect to gains derived from the disposal of farm assets. Only gains that exceed the net cumulative losses on investments sustained after 1987 entitle the taxpayer to the exemption.[6]

Given the rate of inclusion in income of 50% for capital gains realized after October 17, 2000, the resulting exemption on taxable capital gains may total $250 000. The inclusion rate was 75% for capital gains realized before February 28, 2000 and 66 ⅔% for capital gains realized after February 27, 2000 but before October 18, 2000.

For the purposes of this measure, a farm asset can be a share of the capital stock of a family farm corporation, an interest in a family farm partnership, or a land or a depreciable asset used to operate an unincorporated farm or a farm that is not operated as a partnership.

This measure is intended to encourage risk-taking and investment in farming enterprises and create a favourable climate to enable such enterprises to obtain capital. It is also designed to foster the emergence of new enterprises and help small enterprises expand, while recognizing the special position of farmers.

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[6] The $500 000 an individual may claim is divided between the former exemption of $100 000, the exemption relating to eligible farm property, the exemption relating to shares of a small business and the exemption relating to eligible fishing assets, as the case may be.

☐ LIFETIME $500 000 CAPITAL GAINS EXEMPTION ON FISHING ASSETS (2002)

Since December 10, 2002, a lifetime $500 000 capital gains exemption is allowed with respect to gains derived from the disposal of eligible fishing assets. Only gains that exceed the net cumulative losses on investments sustained after 1987 entitle the taxpayer to the exemption.[7]

Given the rate of inclusion in income of 50% for capital gains, the resulting exemption on taxable capital gains may total $250 000.

For the purposes of this measure, an eligible fishing asset can be a fishing license, quota or fishing boat used in the course of carrying on a fishing business. Since May 2, 2006, eligible fishing assets also include immovable property, shares of the capital stock of a family fishing company or a participation in a family fishing partnership.

This measure is intended to encourage a new generation to enter the fisheries sector, while recognizing the special situation of fishers.

☐ DEDUCTION OF CONTRIBUTIONS TO A FISA (2001)

The Farm Income Stabilization Account (FISA) was a program under which an agricultural enterprise and the Québec and federal governments paid amounts in equal proportions into a fund for the enterprise. The income stabilization mechanism provided under FISA allowed farmers to stabilize their income by making voluntary contributions to the fund in years when their income was high, and by making withdrawals from the fund, under certain conditions, in years when their income declined.

Between November 1, 2001 and December 31, 2002, contributions to a FISA made by an entity that carries on an agricultural enterprise are deductible in calculating the income derived from the operation of this enterprise by such entity.

Consequently, the amounts withdrawn from a FISA by such an entity are added to the income derived from the operation of the agricultural enterprise by such entity for the taxation year during which the withdrawal is made.

Since January 1, 2003, contributions to a FISA are no longer possible.

Essentially, this tax treatment was designed to encourage saving so that entities that carry on an agricultural enterprise can manage fluctuations in their farm income depending on their needs.

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[7] *Supra*, note 6.

❑ DEDUCTION FOR FOREIGN FARM WORKERS (2006)

Since 2006, foreign farm workers – hired under a recognized federal program for seasonal workers – can claim a deduction, in calculating their taxable income, which effectively exempts from tax 50% of the income from their employment in Québec.

For the purposes of this measure, the following federal programs are recognized:

- the Mexican Seasonal Agricultural Workers Program, implemented under a memorandum of understanding reached between the government of the United States of Mexico and the government of Canada;
- the Caribbean Seasonal Agricultural Workers Program, implemented under a memorandum of understanding reached between the governments of certain Caribbean Commonwealth countries and the government of Canada;
- the Pilot Project for Hiring Foreign Workers in Occupations that Usually Require a High School Diploma or Job-Specific Training, developed by the government of Canada.

The purpose of this measure is to help farm producers in Québec to remain competitive in terms of recruiting foreign workers.

1.4.2 Culture

❑ DUES AND DONATIONS TO ARTS ASSOCIATIONS (1987)

Artists who pay dues to recognized arts associations representing them may receive a non-refundable tax credit that is established by applying to the amount of such dues, a rate of 20.75% (2001) and 20% (as of 2002).

In addition, donations made prior to June 30, 2006 to recognized arts organizations and donations made after June 29, 2006 to registered cultural or communications organizations are included to determine the total amount of donations giving rise to the tax credit for donations. The tax credit for donations is calculated using two rates. For the first $200 ($2 000 for 2001 to 2005) taken into account in calculating the tax credit, the applicable rate corresponds to 20.75% (2001) and to 20% (as of 2002), i.e. the rate used to convert recognized amounts to non-refundable tax credits. For the amount in excess of the first $200 ($2 000 for 2001 to 2005), the applicable rate corresponds to 24.5% (2001) and to 24% (as of 2002), i.e. the maximum marginal rate applicable for purposes of calculating personal income tax.

However, donations made to a recognized arts organization and to a registered cultural or communications organization are subject to the rule designed to limit, to a certain level of the donor's income, the total amount of donations, other than donations of cultural property or similar property, donations of property with undeniable ecological value, gifts to the State prior to April 1, 1998, gifts to a religious order after December 31, 2002 by a member of such an order who has taken a vow of perpetual poverty as well as gifts of musical instruments made after March 23, 2006 to a recognized educational institution, that may be included in the calculation of the tax credit for donations.

This limit is equal to 75% of the donor's income for the year for which the tax credit is claimed, unless he died in such year, in which case the limit was set, for the year of his death and the preceding year, at 100% of his income. The 75% limit may also be raised to 100% of the donor's income when the object of the donation is a capital property (for years prior to 2004, the capital property that is donated had to be related to the recipient's mission for the 75% limit on the donor's income to reach 100% of such income).

If the donation was made before December 21, 2002, the eligible amount of the donation used to calculate the tax credit for donations generally corresponds to the fair market value of the donated property. If the donation is made after December 20, 2002, the eligible amount of the donation corresponds to the excess of the fair market value (real or, if applicable, deemed) of the property donated over the amount of the advantage, where applicable, in respect of the donation or gift.

The measure regarding dues to recognized arts associations is intended to provide artists with tax relief in respect of the dues paid to associations that seek to promote the professional interests of their members, e.g. unions.

The measure regarding donations made to recognized arts organizations and registered cultural or communications organizations is designed to facilitate the funding of Québec arts, cultural or communications organizations that are unable to obtain registered charity status.

☐ DEDUCTION FOR MUSICIANS AND ARTISTS (1988)

A musician who is employed may deduct the amounts he spends to maintain, rent or insure a musical instrument and depreciation in respect of the instrument.

Furthermore, Revenu Québec has adopted an administrative policy concerning performing and recording artists and film actors under which such artists are, under certain conditions, deemed to be self-employed, so that they may deduct the expenses they incur in order to earn income from artistic sources.

These measures are intended to take into account the specific situation of artists.

☐ INCOME AVERAGING FOR ARTISTS (2004)

An individual who is a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*, can deduct, in calculating his income, the amount paid to acquire an eligible income averaging annuity, which must, among other things, stipulate equal payments for a period of not more than seven years, provided such amount does not exceed the portion of his income from his artistic activities that exceeds the total of $25 000 ($50 000 for 2004 and 2005) and the amount of the deduction for income from copyright or similar royalties to which he is entitled for the year.

The income tax thus averaged is payable during subsequent years as the payments under the averaging annuity are made.

Because of the progressivity of the tax rates, an artist can enjoy a tax saving when his taxable income for a subsequent year, during which he receives payments under such an averaging annuity, is less than what would have otherwise been his taxable income for the year for which the deduction was granted.

This measure is intended to assist artists by recognizing that the income of many artists fluctuates significantly from year to year.

☐ DEDUCTION FOR AN ARTIST REGARDING COPYRIGHT OR SIMILAR ROYALTIES (1995 AND 2004)

An individual who is a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters* or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*, can claim a deduction, in calculating his taxable income, that exempts from tax a portion of his income derived from copyright and, since 2003, similar royalties, of which he is the first holder.

Income from royalties similar to copyright eligible for this deduction mean, since 2003, the amount of public lending rights and, in addition, since 2004, income from the right to remuneration for private copying stipulated by the *Copyright Act* and from other rights granted by this legislation to performing artists.

This deduction, which cannot exceed $15 000 of eligible income per year, is reduced by $0.50 for every dollar of copyright income or royalties similar to copyright in excess of $30 000. Accordingly, an artist may claim this deduction if his income from his copyright and similar royalties is less than $60 000.

This deduction is intended to promote the creation of original works and the performance of such works as well as the emergence of new talent.

☐ DEDUCTION FOR FOREIGN PRODUCERS (2001)

Non-residents of Canada who work as producer for a film production recognized by the Société de développement des entreprises culturelles (SODEC), can claim a deduction in calculating their taxable income, with the result that payments they receive for such services are non-taxable in their hands.

This deduction is designed to keep Québec competitive regarding foreign film productions and provide more inducement for such productions to come to Québec.

☐ NON-TAXATION OF GAINS TIED TO DONATIONS AND OTHER DISPOSITIONS OF CULTURAL PROPERTY (1977 AND 1992, RESPECTIVELY)

An individual who disposes, in favour of certain museums, of a work of art recognized by the Canadian Cultural Property Export Review Board as being of national interest or by the Commission des biens culturels du Québec may take advantage of a tax exemption on the taxable capital gain that should normally result from this transaction. The same is true of the disposal of certain cultural property in favour of a certified archival centre, a recognized museum or, if the disposition was made after March 23, 2006, a museum established under the *National Museums Act* or the *Act respecting the Montreal museum of Fine Arts*.

In addition, the taxable capital gain that may result from the donation, after July 11, 2002, of the bare property of certain cultural property is also tax-exempt, provided the donation is made to a recognized donee, such as a Québec museum, and satisfies a series of conditions ranging from the length of the usufruct or right of use burdening the donated object to its custody and insurance.

This tax exemption is intended to encourage the donation of art works to museums and donations of heritage property.

☐ NON-TAXATION OF GAINS TIED TO DONATIONS OF A MUSICAL INSTRUMENT (2006)

An individual who donates, after March 23, 2006, a musical instrument to certain recognized educational institutions located in Québec may claim a tax exemption on the taxable capital gain that should normally result from this transaction.

This tax exemption is intended to encourage the donation of musical instruments to Québec educational institutions that offer music training so that they can make such instruments available to their students.

☐ DEPRECIATION OF WORKS OF ART BY A CANADIAN ARTIST (1981)

An individual who operates a business or receives property income and who acquires a work of art by a Canadian artist in order to display it at his place of business may amortize each year, on a 33 ⅓% residual basis, the cost of acquisition of the work of art. However, works of art acquired before April 22, 2005 give rise to a deduction for depreciation of 20% of the cost of acquisition of the work of art, on a residual basis.

This measure is intended to support the production of works of art by Canadian artists.

1.4.3 Employment

☐ DEDUCTION FOR WORKERS (2006)

Since 2006, all workers – employees or self-employed workers – may claim a deduction equal to 6% of their eligible work income, up to $500 for 2006 and $1 000 as of 2007.

Briefly, an individual's eligible work income for a year means the remuneration included in the calculation of the individual's income for the year from any office or employment, as well as the amount by which the individual's income for the year from businesses carried on by the individual alone or as a partner actively engaged in the businesses exceeds the individual's losses for the year from the businesses.

This deduction is designed to recognize that part of an individual's worked income must go toward paying work-related expenses, the most common being costs incurred to travel from home to work, and additional expenses for meals and clothing.

☐ NON-TAXATION OF CERTAIN NON-MONETARY BENEFITS RELATING TO AN EMPLOYMENT (1972)

The fringe benefits offered by employers to their employees are not usually taxable when it is difficult for administrative reasons to ascertain their value or when it is reasonable to consider that they benefit employers more than employees. For example, the discount granted on the purchase of goods, subsidized recreational facilities offered to all employees and the uniforms and clothing intended to protect them, are not taxed.

This measure takes into consideration the administrative and compliance costs that would result from taxation of such benefits.

☐ FISCAL MEASURES TO ENCOURAGE THE USE OF PUBLIC TRANSIT (2006)

— Additional deduction of 100% in the calculation of an employer's income

An employer may deduct, in calculating his income from a business, an additional amount equal to 100% of an amount that is otherwise deductible in calculating his income and that represents either an amount reimbursed to an employee for the purchase of a subscription-type public transit pass valid for a period after March 31, 2006, or an amount reimbursed after March 23, 2006 to an employee for the purchase of an eligible paratransit pass, or the cost for the employer of an eligible transit pass or eligible paratransit pass supplied to an employee after March 23, 2006. Eligible transit passes must be acquired by the employee or supplied by the employer for the transportation of the employee between his or her usual place of residence and his or her place of work.

This measure is intended to encourage employers to offer their employees programs promoting regular use of public transit to commute to work.

— Non-taxation of benefits granted to employees

An individual is not obliged to include in the calculation of his income from an office or employment, the value of the benefit received because of, or in the course of, the office or employment, where the benefit stems from either the reimbursement of the cost of a subscription-type transit pass valid for a period after March 31, 2006, or the reimbursement, after March 23, 2006, of the cost of an eligible paratransit pass, or the supply, after March 23, 2006, of an eligible transit pass or eligible paratransit pass. Eligible transit passes must be acquired by the employee or supplied by the employer for the transportation of the employee between his or her usual place of residence and his or her place of work.

This measure is intended to encourage employees to participate in programs set up by their employers to promote regular use of public transit to commute to work.

☐ NON-TAXATION OF CERTAIN AMOUNTS PAID TO A MEMBER OF A BOARD OF DIRECTORS OR A MEMBER OF CERTAIN COMMITTEES (2000)

An individual who holds an office in a body that is a corporation, an association or an organization is not required to include, in calculating his income, the amount he receives from that body in the form of an allowance for travelling expenses or a reimbursement of such expenses to enable him to attend the meetings of the board or committee on which he sits, provided the amount does not exceed a reasonable amount. In order to benefit from this special tax treatment, the place where the meeting is held must be at least 80 kilometres from the individual's place of residence and be consistent with the territorial scope of the non-profit organization's activities, or be within the local municipal territory or the metropolitan region where the head office or main place of business of the profit oriented organization is located.

The primary objective of this measure is to facilitate recruitment of persons to hold office with provincial not-for-profit organizations.

☐ NON-TAXATION OF CERTAIN ALLOWANCES PAID TO EMERGENCY SERVICES VOLUNTEERS (1998)

An individual who works for a public administration as an ambulance technician, a volunteer firefighter or an emergency volunteer worker is not required to include in the calculation of his income the remuneration received for such work, up to a maximum of $1 000. If the individual is so employed by more than one employer, he is entitled to a maximum deduction of $1 000 in respect of the remuneration paid by each employer.

The purpose of this measure is to assist rural and small communities, which are often unable to afford full-time emergency teams and must depend on volunteer services. It also allows for the fact that volunteers cannot deduct the expenses they incur in performing their duties, for example, travel expenses.

☐ NON-TAXATION OF STRIKE BENEFITS (1972)

Strike benefits paid by a union to its members are not taxable.

In a judgment handed down in 1990, the Supreme Court of Canada confirmed the non-taxable nature of strike benefits, even if the funds used to pay such compensation are collected through union dues that are subject to tax relief.

☐ SALARY DEFERRAL UNDER AN EMPLOYEE BENEFITS PLAN (1980)

An employer may contribute, for the benefit of his employees, to an arrangement called "employee benefits plan" when, generally, this arrangement is not designed primarily to defer the tax on the income otherwise payable to the employees. In such a case, the employees are not obliged to add to their income either the contributions thus paid to the plan or the investment income that the contributions generate, as long as they do not receive benefits from the plan.

However, the employer may not deduct the contributions that he has paid into this type of plan before they are actually paid to the employees in the form of benefits.

In the meantime, the tax on the investment income accumulated in the plan must be paid by the plan each year or, if the income is distributed, by the employer or the employee, as the case may be.

The government's tax base is maintained by making the point at which the benefits from an employee benefits plan are taxed coincide with the point at which the deduction is granted to the employer in respect of the contributions made to such a plan.

Since 1986, employee benefits plans may generally only be established to allow an employee to receive a portion of his salary in a subsequent year in which he benefits from sabbatical leave. This type of plan may also be established in order to spread out the salary of a professional athlete.

☐ SALARY DEFERRAL BECAUSE OF LEAVE (1986)

Employees, usually those in the public and parapublic sector, may defer the payment of their salary with a view to taking leave lasting at least six months (three months in the case of study leave). The amounts thus deferred are only taxable when the employees receive them, possibly at a lower tax rate. The payer may only deduct these amounts in the year in which they are paid to the employees.

☐ DEDUCTION FOR TRADESPERSONS' TOOLS (2006)

An individual who is employed as a tradesperson may claim, under certain conditions, a deduction regarding eligible new tools he acquired after May 1, 2006, if such tools must, as certified by his employer, be supplied and used by the individual in the course of his job.

The amount of the deduction that may be allowed an individual for a year corresponds to the excess, over $1 000 (this amount to be indexed as of 2008 according to the indexing factor used to index the main parameters of the tax system), of the lesser of the cost of new tools acquired in the year and the income earned essentially from his job as a tradesperson during the year. However, the maximum amount deductible for a year may not exceed $500.

This measure is intended to recognize that some tradespersons are required to bear the cost of acquiring the tools they must use in the course of their job.

☐ DEDUCTION FOR A HOME RELOCATION LOAN (1985)

An employee who obtains a taxable benefit because of an interest-free loan or a loan at a reduced interest rate granted by his employer may take advantage of a deduction in the calculation of his taxable income if the loan qualifies as a home relocation loan.

Briefly, a home relocation loan is a loan used to acquire a home and received by an individual or his spouse when the individual takes up employment in a new place in Canada, which obliges him to move from one home to another, both of them located in Canada, to settle within at least 40 km of the new place of work.

This deduction, granted for a maximum of five years, is equivalent to the lesser of the value of the benefit included in the calculation of the employee's income with respect to the home relocation loan and the value of the benefit that would thus be included were the value calculated on a $25 000 interest-free loan.

This measure is intended to facilitate manpower mobility and avoid imposing an additional tax burden on an employee who is moving in order to be close to his new place of work, bearing in mind that he may have to acquire a more expensive home.

☐ DEDUCTION FOR WORKERS EMPLOYED ABROAD (1980)

An individual residing in Québec and who performs almost all of the duties pertaining to his employment outside Canada for a period of at least 30 consecutive days may take advantage of a deduction, in calculating his taxable income, of up to 100% of his basic salary and allowances that do not exceed 50% of this basic salary. To take advantage of this deduction, the individual must perform his duties on behalf of a designated employer and this duties must be performed in connection with a contract under which this employer operates abroad an enterprise related, in particular, to farming, construction, engineering or scientific or technical services.

This measure is intended to promote the hiring of Quebecers to perform work abroad and bolster the competitiveness of Québec firms operating abroad.

☐ DEDUCTION FOR A MEMBER OF THE CANADIAN FORCES OR A POLICE OFFICER ON A MISSION (2004)

Since 2004, a taxpayer who participates, as a member of the Canadian Forces or a police officer, on a mission recognized as involving a certain degree of risk can deduct, in calculating his taxable income, the employment income he earned during such mission, up to the amount he then would have earned had he been remunerated at the maximum rate of remuneration of non-commissioned members of the Canadian Forces. This rate of remuneration is \$6 089 per month for January to March 2004, \$6 491 per month for April 2004 to March 2005 and \$6 647 per month for April 2005 and subsequent months.

Accordingly, the employment income thus deductible is not taxable. However, it is included in the calculation of the government assistance provided by various transfer programs and the refundable and non-refundable tax credits that reduce with income.

This measure is intended to acknowledge the contribution of members of the Canadian Forces and police forces to peace and security, especially when they are assigned to high-risk international missions to serve their country.

☐ DEDUCTIONS FOR STOCK OPTIONS GRANTED TO EMPLOYEES (1985)

An employee who takes advantage of a share purchase option granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the shares at the time of their acquisition and the amount paid or payable to acquire the shares and the attendant options.

When a Canadian-controlled private corporation (CCPC) grants the stock option to an employee, the value of this benefit must be included in the calculation of the employee's income for the year during which the stock is disposed of. In other instances, the value of the benefit must be included in the calculation of the employee's income for the year during which the stock was acquired. However, under certain conditions, the employees of listed corporations may defer taxation of the value of the benefit resulting from the exercise, after February 27, 2000, of the stock option to the year during which the stock is disposed of or exchanged, up to a single annual limit of $100 000 based on the fair market value of the securities, other than shares of a CCPC, at the time the options are granted.

In addition, subject to compliance with certain conditions, in particular those pertaining to the share, an employee could deduct, in calculating his taxable income for each of 2001 and 2002, an amount equal to half the value of the taxable benefit if the option was exercised before the end of the year. For 2003, the deduction was equal to half the value of the taxable benefit if the option was exercised before June 13, 2003 and to 37.5% of such value if the option was exercised after June 12, 2003. For 2004, this deduction was equal to 37.5% of the value of the taxable benefit if the option was exercised before March 31, 2004 and to one quarter of such value if the option was exercised after March 30, 2004. As of 2005, this deduction is equal to one quarter of the value of the taxable benefit. However, if the employee elected to defer taxation of the value of the benefit resulting from the exercise of his option, the value of the deduction is established not on the basis of the date on which the option is exercised but on the basis of the date on which the share is disposed of or exchanged.

An employee of a CCPC who disposes of or exchanges stock more than two years after acquiring it may deduct, in calculating his taxable income, a portion of the value of the taxable benefit included in the calculation of his income, if he does not claim, regarding such stock, the deduction described in the preceding paragraph. Regarding dispositions or exchanges occurring after December 31, 2000 and before June 13, 2003, an amount equal to half the value of the taxable benefit was allowed as a deduction. The deduction was reduced to 37.5% of the value of the taxable benefit for dispositions and exchanges occurring after June 12, 2003 and prior to March 31, 2004, and to 25% of such value for dispositions and exchanges occurring after March 30, 2004.

This measure is intended to encourage employees to enhance the performance and profitability of their employer's business and help corporations to attract and retain highly skilled personnel.

☐ DEDUCTION FOR OPTIONS TO PURCHASE UNITS OF A MUTUAL TRUST FUND (1998)

An employee who takes advantage of an option to purchase units of a mutual trust fund granted by his employer must include in the calculation of his income, as a benefit, an amount equivalent to the difference between the value of the units at the time of their acquisition and the amount paid or payable to acquire these units and the attendant options. The value of this benefit must be included in the calculation of the employee's income for the year during which the units were acquired.

However, under certain conditions, an employee can defer taxation of the value of the benefit resulting from the exercise, after February 27, 2000, of the option to the year during which the units are disposed or exchanged, up to a single annual limit of $100 000 based on the fair market value of the securities, other than the securities of a Canadian-controlled private corporation (CCPC), at the time the options are granted.

In addition, subject to compliance with certain conditions, an employee could deduct, in calculating his taxable income for each of 2001 and 2002, an amount equal to half of the value of the benefit included in the calculation of his income for the year, if the option was exercised before the end of the year. For 2003, the deduction was equal to half the value of the taxable benefit if the option was exercised before June 13, 2003 and to 37.5% of such value if the option was exercised after June 12, 2003. For 2004, this deduction was equal to 37.5% of the value of the taxable benefit if the option was exercised before March 31, 2004 and to one quarter of such value if the option was exercised after March 30, 2004. As of 2005, this deduction is equal to one quarter of the value of the taxable benefit. However, if the employee elected to defer taxation of the value of the benefit resulting from the exercise of his option, the value of the deduction is established not on the basis of the date on which the option is exercised but on the basis of the date on which the unit is disposed of or exchanged.

This measure is intended to encourage employees to enhance the performance and profitability of their employer's business and help mutual trust funds to attract and retain highly skilled personnel.

☐ DEDUCTION RESPECTING THE DONATION OF SECURITIES ACQUIRED UNDER A STOCK OPTION (2000)

Employees who donate certain securities acquired under a stock option plan to a registered charitable organization (other than a private foundation) may, under certain conditions, claim an additional deduction in calculating their taxable income. Regarding donations made before May 2, 2006, the amount of the additional deduction was equal to one quarter of the value of the taxable benefit resulting from the exercise of the option. The amount of such additional deduction was changed to half of the value of the taxable benefit for donations made after May 1, 2006.

To give rise to such special tax treatment, the object of the donation must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charitable organizations to help them respond to public needs.

1.4.4 Business and investment

☐ NON-TAXATION OF INCOME FROM WAR SAVINGS CERTIFICATES (1972)

The amounts received in respect of the War Savings Certificates issued by His Majesty in *right of Canada or similar certificates issued by His Majesty in right of* Newfoundland prior to April 1, 1949 are not taxable.

These certificates are redeemable at a price higher than their issue price. This tax exemption ensures that the difference between the redemption price and the issue price is not deemed to be taxable interest.

This non-taxation was originally intended to encourage taxpayers to participate in financing World War II. It is now maintained to grant the same privilege to taxpayers who have not yet redeemed these certificates.

☐ PARTIAL INCLUSION OF CAPITAL GAINS (1972)

Before February 28, 2000, the proportion of net capital gains included in the calculation of income of individuals and corporations was 75%. Following changes introduced during 2000, this proportion was reduced to 66 ⅓% regarding capital gains realized between February 27, 2000 and October 18, 2000, and reduced again to 50% regarding capital gains realized after October 17, 2000.

The partial inclusion of capital gains is intended to recognize that the appreciation in the value of an asset does not necessarily reflect the taxpayer's enrichment, bearing in mind inflation. It also results in the virtually equivalent treatment of dividend income and capital gains on shares.

☐ REDUCTION OF THE INCLUSION RATE FOR CAPITAL GAINS RESULTING FROM THE DONATION OF CERTAIN SECURITIES (2000)

For donations of certain securities made before May 2, 2006 to registered charitable organizations (other than a private foundation), the inclusion rate of capital gains resulting from the donation of such securities was reduced by half. Where such a donation is made after May 1, 2006, the resulting taxable capital gain is equal to zero.

To give rise to this preferential tax treatment, the object of the gift must be a share, a debt obligation or a right listed on a recognized Canadian or foreign stock exchange, a share of the capital stock of a mutual fund corporation, a unit of a mutual fund trust, an interest in a segregated fund trust or certain debt obligations.

This measure was introduced to facilitate the transfer of certain listed securities to charitable organizations to help them to respond to public needs.

☐ REDUCTION OF THE INCLUSION RATE OF CAPITAL GAINS ARISING FROM DONATIONS OF PROPERTY WITH UNDENIABLE ECOLOGICAL VALUE (2000)

For donations of property with undeniable ecological value made before May 2, 2006 to a *recognized donee*, the inclusion rate of capital gains resulting from the donation of such property was reduced by half. Where such a donation is made after May 1, 2006, the resulting taxable capital gain is equal to zero.

To give rise to this preferential tax treatment, the object of the gift must be a land located in Québec that, in the view of the Minister of the Environment of Québec, has undeniable ecological value, or a real servitude encumbering such land. The land may also be located outside Québec in a border region, if the donation is made after July 5, 2001.

This measure is designed to encourage taxpayers to make donations that contribute to the protection and the development of Québec's ecological heritage.

☐ EXEMPTION OF $1 000 IN CAPITAL GAINS REALIZED ON THE SALE OF PERSONAL PROPERTY (1972)

Personal property is essentially owned for the use and pleasure of the owner instead of constituting an investment, e.g. an automobile.

In the case of such property, rules attributing a minimum value of $1 000 to their cost and to their selling price apply. Because of these rules, the capital gain is reduced or zero when the real cost is lower than $1 000 and it is zero when the real selling price is lower than $1 000 (the capital loss is always zero except in the case of precious property such as paintings or stamps).

This measure is intended to simplify the administration of the tax system concerning the disposal of personal property of limited value.

However, in the case of personal property acquired after February 27, 2000 as part of an arrangement stipulating that the property will be donated, rules attributing a minimum value of $1 000 to its cost and selling price do not apply.

☐ EXEMPTION OF $200 IN CAPITAL GAINS REALIZED ON CURRENCY EXCHANGE TRANSACTIONS (1972)

The first $200 in net capital gains realized annually on currency exchange operations (variation in a foreign currency in relation to Canadian currency) is tax exempt. However, any net capital loss sustained on currency exchange operations and which is less than $200 is deemed to be null.

This measure is intended to simplify the administration of the tax system by avoiding accounting for small gains and losses on currency exchange operations.

☐ NON-TAXATION OF CAPITAL GAINS ON A PRINCIPAL RESIDENCE (1972)

The capital gain realized at the time of the disposal of a principal residence is tax exempt.

This measure is intended to enable Quebecers to become homeowners and to accumulate wealth. In addition, it makes it possible to exempt from tax a significant portion of the return on household savings.

However, the granting of this exemption justifies the refusal to allow as deductions from income improvement expenses, mortgage interest, property taxes and other expenses incurred in respect of a principal residence. Moreover, the capital losses resulting from the disposal of such property do not give rise to tax relief.

In addition, this exemption also applies regarding the capital gain resulting from the constitution, after April 21, 2005, of a real servitude affecting a principal residence.

☐ DEFERRAL OF CAPITAL GAINS

— Taxation of capital gains when realized (1972)

The capital gain realized by a taxpayer is only taxed when he disposes of assets whose value has increased since they were acquired.

This measure is intended to only subject to tax the gain effectively realized by a taxpayer, as opposed to imputed accumulated gain, thus avoiding having taxpayers to pay tax when they have not received any money corresponding to the imputed accumulated gain.

Such a measure simplifies the tax system by avoiding having taxpayers calculate each year a gain or loss in relation to the value of their assets each year, which may fluctuate considerably from one year to the next.

However, since 1994, financial institutions must declare the gains and losses on certain securities, called "mark-to-market properties", in light of the value of such assets at the end of each year.

— Deferral by means of capital gains rollover provisions

In some instances, taxpayers may defer the realization of capital gains for the purpose of calculating tax. The general rollover provisions applicable to taxpayers may be divided into two categories.

- ### *Rollover because of the acquisition of replacement property (1972)*

Involuntary disposition

The capital gain arising from the involuntary disposal of property that is not a share in the capital-stock of a corporation may be deferred if the funds received are used to replace the asset before the end of the second taxation year following the year during which the involuntary disposition occurred (for instance, the proceeds from insurance received after an asset is destroyed in a fire). The capital gain then becomes taxable at the time of the disposal of the replacement asset.

This measure is intended to avoid having a taxpayer, whether or not he operates a business, bear a tax burden immediately because of the involuntary disposal of an asset when he would only have disposed of the asset later were it not for circumstances beyond his control.

Voluntary disposition

Generally speaking, the capital gain arising from the voluntary disposal of property that is not a share in the capital-stock of a corporation, such as a lot or a building by individuals operating a business may be deferred if the replacement property is purchased prior to the end of the first taxation year following the year in which the disposal took place, (e.g. this is the case when a business moves). However, it is not generally possible to take advantage of the rollover in respect of replacement property used to produce rental income.

This measure is intended to grant some flexibility to taxpayers who operate a business in the management of their property.

- ### *Transfer to a corporation in exchange for shares or to a partnership in exchange for an interest therein (1972)*

Individuals may transfer property to a corporation or to a partnership and elect to defer the capital gain or the recovery of depreciation resulting from such transfer instead of paying the tax payable the year of the sale (rollover).

This measure is intended to avoid making a taxpayer immediately bear a tax burden solely because he decides to use property in the course of carrying on a business through a corporation or a partnership rather than directly.

Since 1997, apart for certain exceptions, when the parties have carried out a rollover for the transfer of property for the purposes of federal tax, a rollover is deemed to have taken place in respect of the transfer of this property for the purposes of Québec tax. Moreover, the amount that must be considered as the proceeds from the disposal for the transferor and the cost of the property for the beneficiary of the transfer, for the purposes of Québec tax, is deemed to be the amount considered in this respect from the standpoint of the choice of rollover exercised for the purposes of federal tax. Similarly, if no rollover took place in respect of the transfer of property for the purposes of federal tax, no rollover is possible as regards the transfer of this property for the purposes of Québec tax.

The latter provisions are intended to halt provincial tax avoidance transactions based on the existence of distinct rollover choices in Québec tax legislation.

— Deferral of capital gains through transfers between spouses (1972)

Individuals may transfer capital property to their spouses or to a trust in favour of their spouses at the property's adjusted cost base instead of its fair market value (rollover). In this way, it is possible to defer the capital gain until the property is once again disposed of or until the death of the spouse who benefited from the transfer.

Property transferred to other members of the family or to third parties (or to trusts of which they are the beneficiaries) is not subject to the same system. The assignor is usually deemed to have disposed of the property at the time of transfer and must include the resulting capital gain in the calculation of his income at that time.

This exceptional provision is intended to recognize a taxpayer and his spouse as a single taxation entity, thus avoiding taxing the transfer of property within the same household. It should be noted that such a deferral of tax is not allowed for a lengthy period, since it is only permitted in respect of a transfer between two individuals of the same generation. Furthermore, when the transfer occurs inter vivos, special rules apply so that the income generated by the property transferred, with the occasional exception, is taxed in the hands of the transferor.

Since 1997, the rollover between spouses has not been possible when, for federal tax purposes, the transferor elects not to apply the rollover rules.

— Deferral by means of the five-year reserve (1972)

When the proceeds from the sale of an asset that is capital property are not to be received fully in the year of the sale, a portion of the realized capital gain may be deferred to the years in which the balance of the proceeds of the sale is received. However, each year, at least 20% of the gain must be included in income, which creates a reserve period of not more than five years.

This measure is intended to avoid having a taxpayer face cash problems in relation to the tax payable on the portion of the capital gain realized at the time of disposal of an asset in respect of which he did not receive any corresponding amount of money.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

— Deferral attributable to the 10-year reserve for capital gains on the sale to children of shares of a corporation that carries on a small business (1972)

When the proceeds from the sale of the shares of a corporation that carries on a small business to a taxpayer's descendant are not to be fully received in the year of the sale, the taxation of a portion of the capital gain realized at the time of such a sale may be deferred until the year during which the proceeds of the sale are to be received.

However, a minimum of 10% of the gain must be included in income each year, which creates a reserve period of not more than 10 years.

For all other assets, except farm property that enjoys the same privilege as the shares of a corporation that carries on a small business, the inclusion in income must be carried out over a maximum period of five years, at the rate of 20% a year.

This measure is intended to promote the transmission of small businesses between generations.

Furthermore, since 1997, the maximum amount of the reserve that may be requested as a deduction in the calculation of a taxpayer's capital gain may not exceed the amount granted as a deduction in this respect at the federal level. The latter measure is intended to prevent provincial tax avoidance.

❑ INCOME AVERAGING FOR OWNERS OF PRIVATE WOODLOTS DAMAGED BY THE ICE STORM (1999)

The owners of private woodlots damaged by the January 1998 ice storm may take advantage of the deferral of tax for a period not exceeding four years in respect of a portion of the income derived from the sale of timber harvested in their woodlots. The amount carried over may not exceed 40% of such income otherwise determined.

Taxation years 1999, 2000, 2001 and 2002 are covered by this measure. In respect of these taxation years, the tax relating to the amount that does not exceed 40% of the income derived from the sale by an eligible woodlot owner of wood may be carried over, at the latest, to the 2003, 2004, 2005 and 2006 taxation years, respectively.

☐ INCOME AVERAGING FOR FOREST PRODUCERS (2006)

Since March 23, 2006, an eligible owner of a private woodlot can deduct, in calculating his taxable income for a taxation year ended no later than December 31, 2009, an amount not exceeding 80% of his income, or of his share of the income of a partnership of which he is a member, relating to the operation of a private woodlot for such taxation year. The amount thus granted as a deduction in the calculation of the taxable income of an eligible owner for a taxation year must be included, in whole or in part, in the calculation of the taxable income of such eligible owner for one of the four taxation years following the one in which such deduction is allowed. However, the total amount of such deduction must have been included in the calculation of the income of the eligible owner no later than the fourth taxation year following the one in which the deduction is allowed.

For the purposes of this measure, an eligible owner, in respect of a woodlot, means an individual or an eligible corporation recognized as a forest producer in respect of such woodlot by the ministère des Ressources naturelles et de la Faune. An individual or an eligible corporation that carries on a business in Québec through a partnership may also qualify as an eligible owner.

This measure aims at encouraging the production and marketing of timber in private forests.

☐ DEFERRAL USING THE BILLING-BASED ACCOUNTING METHOD FOR PROFESSIONALS (1983)

For the purpose of calculating their income, certain professionals such as accountants, dentists, lawyers, physicians, veterinarians and chiropractors may elect to use the accrual basis of accounting or the billing-based accounting method.

The latter method consists in deducting the cost of work in progress even if the corresponding receipts are only incorporated into income when the invoice is paid or when the amount is due. This is essentially true of goods or services that are being completed and that have not reached the stage at which the taxpayer is obliged to include an amount receivable.

This method gives rise to a tax deferral.

☐ ROLLOVER OF INVESTMENTS IN SMALL BUSINESSES (2000)

To facilitate access to the capital that small businesses may need, a rollover measure allows individuals who realized, after February 28, 2000, a capital gain on the disposal of an investment in a small business, to defer an amount of capital gain when a corresponding amount is reinvested in another eligible small business.

At first limited to $500 000, the maximum amount of capital gain that can be deferred in this way was raised, in harmonization with the federal legislation, to $2 million on October 18, 2000 and was eventually eliminated on February 18, 2003.

The objective of this measure is to enable better access to capital for small businesses with strong growth potential. For that reason, specified financial institutions, professional corporations, corporations with substantial real-estate funds as well as corporations the value of whose assets exceeds $50 million are not considered eligible small businesses.

❑ FAMILY TRUSTS (1972, 1995 AND 2000)

Individuals may transfer capital property to a trust in favour of their spouse at the property's adjusted cost base instead of its fair market value. In this way, it is possible to defer the capital gain until the property is once again disposed of or until the death of the spouse who benefited from the transfer.

In harmonization with federal legislation, new types of trusts (mixed trusts and trusts in favour of oneself) can, since January 2000, benefit from a deferment of tax similar to the one benefiting trusts in favour of the spouse.

Property transferred to other members of the family or to a trust of which they are the beneficiaries is not subject to the same system. The assignor is usually deemed to have disposed of the property at its fair market value at the time of the transfer and must include the resulting capital gain in the calculation of his income.

In the case of property transferred to a trust, except a trust in favour of a spouse or oneself, or a mixed trust, the capital gain is usually deemed to have been realized at the time of the transfer and according to the property's fair market value at that time. In addition, such a trust is deemed, in general, to have disposed of capital property other than depreciable property that it holds on the day that falls 21 years after the day on which it was established. Consequently, the accrued capital gain on such property is taxable at that time.

❑ DEDUCTION FOR LOSSES AS LIMITED PARTNER (1987)

The active members of a partnership usually share the partnership's income and losses for tax purposes in proportion to each member's participation in the partnership.

However, tax rules now limit the business losses likely to be transferred to the limited (sleeping) partners of a partnership according to the at-risk amount of the partner's investment in the partnership. The at-risk amount is usually defined as the overall cost of the investment in the partnership plus the latter's undistributed income, less the total amounts due from the limited partner to the partnership and the guarantees or indemnities offered to the limited partner against the loss of his investment.

The general tax treatment of the income or losses of limited partnerships or non-trading partnerships (the "rules of conduct") means that a business loss is broken down annually, while a shareholder may not deduct the losses of the partnership in which he is a partner against his personal income. The limited partner, in the case of a limited partnership, may be compared with the shareholder in the case of a corporation. Investments in limited partnerships that were motivated by tax considerations have, however, led to the introduction of rules on the at-risk amount to prevent the tax benefit arising from an investment as a limited partner in a limited partnership exceeding the limited partner's actual investment.

☐ DEDUCTION FOR ELIGIBLE BUSINESS INVESTMENT LOSSES (1978)

Generally speaking, it is only possible to deduct capital losses arising from the disposal of shares or bonds against capital gains.

However, when such a loss is attributable to the shares or debt instruments of a small corporate business, 50% of such loss (75% for losses suffered before February 28, 2000 and 66 ⅔% for those suffered after February 27, 2000 but before October 18, 2000) may be deducted against another type of income, such as employment income.

The portion of a loss attributable to the shares or debt instruments of a small corporate business that is not used in the year may be subject to a three-year loss carry-back or a ten-year loss carry-forward. After ten years, the loss becomes a capital loss and may be carried over indefinitely in respect of subsequent years against a capital gain. However, such loss, when suffered during a taxation year ending prior to March 23, 2004, can be carried back for three years and carried forward for seven years and becomes a capital loss after seven years.

This measure is intended to ensure the neutrality of the tax system as regards the business operations of small and medium-size enterprises. When an individual operates a business that is not incorporated and sustains losses leading to the cessation of the operation of the business, he may deduct these losses against his other types of income.

☐ LIFETIME $500 000 CAPITAL GAINS EXEMPTION ON SHARES OF SMALL BUSINESSES (1985)

The lifetime $500 000 capital gains exemption applies, in particular, to gains derived from the disposal of the eligible shares of small businesses. The exemption is only possible if the gains exceed cumulative net investment losses sustained after 1987.[8]

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[8] The $500 000 exemption an individual may claim is divided between the former exemption of $100 000, the exemption relating to eligible farm property, the exemption relating to shares of a small business and the exemption relating to eligible fishing assets, as the case may be.

Given the rate of inclusion in income of 50% for capital gains realized after October 17, 2000, the resulting maximum exemption on taxable capital gains is $250 000. The inclusion rate was 75% for capital gains realized before February 28, 2000 and 66 ⅔% for capital gains realized after February 27, 2000 but before October 18, 2000. This exemption, which leads to a deduction in the calculation of taxable income, is intended to encourage the emergence of new businesses and to channel capital to small businesses.

1.4.5 Education

☐ TAX EXEMPTIONS REGARDING BURSARIES AND AWARDS

— Full tax-exemption of bursaries and awards (2001)

Since 2001, bursaries, fellowships and awards for remarkable achievements have been exempt from tax by means of a deduction in the calculation of taxable income, except for bursaries paid by the ministère de l'Éducation, du Loisir et du Sport to students with a major functional impairment or students from northern villages described below which remain excluded from the calculation of income.

However, this tax exemption does not apply to amounts received as benefits under a registered education savings plan, to amounts received in the course of a business and to amounts received because of or in the course of an office or employment.

The value of bursaries and awards is included in calculating the government assistance provided by the transfer programs and the various tax credits reduced by income, with the exception of the tax credit for spouse for 2001 and 2002.

This measure is designed to increase the financial incentive for students to continue studying and to increase the production of remarkable works. By encouraging students to pursue higher education, this measure also seeks to train young scientists in Québec.

— Non-taxation of certain bursaries to students suffering from a major functional impairment (1988)

A person engaged in studies and who suffers from a major functional impairment may receive assistance from the ministère de l'Éducation, du Loisir et du Sport that offsets the special needs created by the impairment. The amount of such assistance, paid in the form of an academic bursary, need not be included in calculating the recipient's income.

This exemption seeks to treat fairly individuals suffering from a major functional impairment by exempting from tax the reimbursement of expenses relating to their impairment.

— Non-taxation of certain bursaries to students from a northern village (1993)

A student from a northern village who must live away from home because the course of studies he is taking is not offered by the school in his community of origin may receive assistance from the ministère de l'Éducation, du Loisir et du Sport to offset his transportation costs. This assistance, paid in the form of an academic bursary, need not be included in calculating the recipient's income.

This exemption is intended to enable students from northern villages to benefit from the same educational services as those offered to other Quebecers.

☐ REGISTERED EDUCATION SAVINGS PLAN (1972)

An individual may contribute to a registered education savings plan (RESP) on behalf of a designated beneficiary, usually his child. Contributions to the RESP are not deductible in the calculation of the subscriber's income but are usually tax free when withdrawn. The maximum annual contribution that can be made for a beneficiary is $4 000, subject to the condition that the cumulative contributions made for him cannot exceed $42 000.

Generally, investment income derived from the contributions paid to an RESP is used to help the designated beneficiary engage in post-secondary education and constitutes taxable income in the beneficiary's hands when withdrawn from the plan. However, if the designated beneficiary of the RESP is 21 years of age and is not engaged in post-secondary study, the subscriber may withdraw from the plan the funds accumulated therein. This investment income must be included in the calculation of the subscriber's income and is subject to an additional 8% tax. However, this additional tax may be reduced or even eliminated provided that a premium allowable as a deduction is paid into a registered retirement savings plan of which the subscriber or his spouse is the annuitant.

This measure is intended to encourage saving to finance post-secondary studies and to heighten interest among subscribers in this type of savings vehicle.

☐ DEDUCTION OF CONTRIBUTIONS TO A TEACHER EXCHANGE FUND (1972)

A teacher may deduct the amount that he pays into a fund that the Canadian Education Association set up for the benefit of Commonwealth teachers living in Canada pursuant to an agreement governing teacher exchanges, up to a maximum of $250 per year.

This measure is intended to facilitate the financing of a teacher exchange fund between Commonwealth countries.

❑ TAX CREDIT FOR TUITION OR EXAMINATION FEES (1997, EXISTED PREVIOUSLY AS A DEDUCTION)

An individual may take advantage of a non-refundable tax credit for tuition fees paid to enable him to pursue his studies. Eligible tuition fees are generally those paid to a post-secondary educational institution.

Examination fees paid to a professional order mentioned in Schedule I to the *Professional Code* can also give rise to the tax credit, provided the exam is required to enable the individual to become a member of the order. The same holds true for examination fees paid, for a year following 2005, to a Canadian or American professional organisation, provided the individual must pass such exam as a condition for the issuing of a licence to practice by a professional order mentioned in Schedule I of the *Professional Code* or to obtain a title awarded by the Canadian Institute of Actuaries, hereunder called "entrance exam", or to enable the individual to sit the entrance exam.

However, to give rise to the tax credit, total tuition and examination fees in a given year must exceed $100.

The eligible amount of tuition and examination fees is converted into a tax credit at rates of 20.75% (2001) and 20% (starting in 2002). Any unused portion of this tax credit can be applied against tax payable in a subsequent year.

This measure is intended to recognize that tuition fees paid in order to obtain a diploma or occupational training as well as examination fees paid to a professional order or for examinations required by such order are expenses incurred with a view to entering the labour market and, consequently, to earning income.

❑ TAX CREDIT REGARDING INTEREST PAID ON A STUDENT LOAN (1998)

Interest paid on a student loan granted pursuant to the *Act respecting financial assistance for education expenses*, the *Canada Student Loans Act* or the *Canada Student Financial Assistance Act* give rise to a non-refundable tax credit. This interest is converted into a tax credit at rates of 20.75% (2001) and 20% (starting in 2002). Any unused portion of the tax credit may be applied to reduce the tax payable in a subsequent year.

The purpose of this tax credit is to lighten the burden arising from the obligation to pay interest on a student loan.

☐ DEDUCTION FOR TOOL EXPENSES OF APPRENTICE VEHICLE MECHANICS (2002).

Since 2002, an individual who is enrolled as an apprentice in a recognized program leading to certification as a mechanic qualified to repair automobiles, aircraft or any other motor vehicle can claim, under certain conditions, a deduction regarding expenses he had to incur during a year – or, in the case of his first job as an apprentice, during the last three months of the preceding year – to acquire new tools that must, as certified by his employer, be supplied and used in the course of his job.

For 2002 to 2005, the amount that can be deducted in calculating the income of an apprentice mechanic corresponds to the excess of the cost of eligible tools for the year over $1 000 or 5% of his employment income as an apprentice for the year, whichever is greater. As of 2006, the reduction threshold of $1 000 used to determine the amount of this deduction is raised to reflect the fact that apprentice mechanics of automotive vehicles can also claim the deduction for tradespersons' tool expenses. For 2006, the reduction threshold of $1 000 is replaced by an amount equal to the total of $1 000 and an amount that corresponds to $500 or the amount deducted for the year on account of the deduction for tradespersons' tool expenses, whichever is lower. As of 2007, the reduction threshold of $1 000 is replaced by an amount equal to the total of $500 and the reduction threshold applicable for the purposes of the calculation of the deduction for tradespersons' tool expenses (i.e. the threshold of $1 000 automatically indexed as of 2008).

However, the maximum deduction for a year cannot exceed the individual's income for the year from all sources. Subject to this limit, any unused portion of the deduction for a year may be carried over and deducted in a subsequent year.

The purpose of this measure is to recognize the exceptional expenses apprentice mechanics must incur to acquire the tools they must have in the course of their training period.

☐ TAX HOLIDAY FOR FOREIGN POST-DOCTORAL INTERNS (1998)

A personal income tax exemption is granted to foreign post-doctoral interns on the salary they earn during a maximum of five years of scientific research and experimental development (R&D) activities with an eligible university entity or public research centre, already recognized for the purposes of fiscal measures relating to R&D.

Until June 12, 2003, this tax holiday consisted of a deduction in the calculation of the individual's taxable income, corresponding to an amount equal to 100% of the individual's salary.

However, the amount of tax assistance of this tax holiday was changed in the June 12, 2003 Budget Speech and the March 30, 2004 Budget Speech.

Briefly, regarding an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption an individual could claim for the purposes of this tax credit applied to 75% of the salary paid to him in this regard. Concerning an employment contract concluded after March 30, 2004, the exemption corresponds to 100% of such salary for the first two years, 75% the third year, 50% the fourth year and 25% the fifth year.

A foreign post-doctoral intern is anyone not residing in Canada immediately prior to being hired and who is recognized as a foreign post-doctoral intern by the ministère de l'Éducation, du Loisir et du Sport.

This measure is intended to facilitate the recruiting of foreign post-doctoral interns by eligible university entities and research centres wishing to carry out R&D, thereby encouraging the pursuit of these activities in Québec, and technology transfers.

☐ DEDUCTION FOR THE REPAYMENT OF STUDENT DEBT CONTRACTED UNDER SLPW (1992)

The SLPW (Subsidy and Loan Program for Workers) offered financial assistance to individuals who withdrew temporarily from the labour market in order to pursue occupational training leading to a secondary school or college diploma. This student financial assistance could consist of a loan guaranteed by the government.

An individual who contracted a student loan under the SLPW may deduct, in calculating his income, the full amount of the portion of this debt (principal and interest) that he repays during the year.

The deduction pertaining to the repayment of student loans contracted under the SLPW are intended to financially support individuals who temporarily leave the labour market in order to engage in individual occupational training by reducing fluctuations in their income during and after the training.

1.4.6 Developmental measures for the economy

☐ MARKET MAKERS (1984)

Briefly, the contributions that a market maker working on the floor of the Montréal Exchange made to an allowance account for contingent losses were deductible from his income, subject to certain limitations.

However, any amount withdrawn by a market maker from an allowance account for contingent losses generally had to be included in his income.

This measure was intended to increase the capital available to market makers by deferring the taxation of a portion of a market maker's gains that were set aside in an allowance account in order to cover contingent losses.

Because of the changes that have occurred in recent years in the financial activities conducted at the Montréal Exchange, this measure was eliminated on March 30, 2004. However, provision was made for taxpayers affected by this change to spread the tax consequences arising from the elimination of this measure over two years.

☐ DEDUCTION FOR CERTAIN FLOW-THROUGH SHARE ISSUE EXPENSES (1991)

Under the general rules governing flow-through share issue expenses, e.g. brokerage, legal and accounting expenses, such expenses must be deducted in the calculation of the issuing company's income over a period of five years.

However, provided that the company waives the deduction of issue expenses incurred at this time and that the expenses pertain to shares or securities the proceeds from which will be used to cover exploration costs in Québec, an additional deduction is granted to the purchasers of flow-through shares in an amount equivalent to the lesser of the issue expenses actually incurred by the company and 15% of the proceeds of the flow-through share issue.

A moratorium was applied to this fiscal measure regarding flow-through shares issued, subject to certain transition rules, after June 12, 2003 and before March 31, 2004. Accordingly, shares issued during this period and covered by the moratorium did not give rise to this fiscal measure.

This measure is intended to help finance natural resource exploration operations in Québec.

☐ DEDUCTIONS RELATING TO STRATEGIC INVESTMENTS

— Stock Savings Plan (SSP) (1979)

Briefly, the SSP had three components:

- an individual could deduct 100% of the cost of acquiring a common share, or 50% of the cost of an eligible convertible security, issued by a listed growth company with assets of less than $350 million in conjunction with a distribution of shares to the public in accordance with the rules governing the SSP;
- and individual who acquired a share issued by a regional venture capital corporation was entitled to a 150% deduction (or 75% of the cost of an eligible convertible security);

— certain rules entitled an individual to a deduction for the acquisition of securities in an "SSP investment fund", based on the fund's commitment to acquire during the following year the shares of growth companies.

The amount of the deduction could not exceed 10% of the individual's total income for the year.

The main objective of the SSP was to ensure better capitalization of small and medium-size Québec enterprises. It was originally intended to reduce the tax burden of high-income earners and to broaden participation by Quebecers in the stock market.

It was announced in the June 12, 2003 Budget Speech that the utility of this measure would be analyzed and during this period of analysis, a moratorium would apply, in general, to investments made after June 12, 2003.

It was announced in the April 21, 2005 Budget Speech that the SSP would be terminated effective December 31, 2005, and a replacement, the SME Growth Stock Plan, was then introduced.

— SME Growth Stock Plan (Accro PME) (2005)

The SME Growth Stock Plan (Accro PME) was introduced in the April 21, 2005 Budget Speech to replace the stock savings plan (SSP).

At the conceptual level, the rules of the new plan essentially incorporate the application details of the SSP. However, the new plan focuses more on small corporations than the SSP did and restricts the range of eligible financial instruments to the common shares of corporations. In addition, a public issue carried out under this plan must be preceded by a favourable advance ruling by Revenu Québec. Lastly, under certain conditions, the securities of certain investment funds may also be eligible for the plan.

Briefly, an eligible issuing corporation is a Canadian corporation that carries on a business in Québec either with at least five employees for more than twelve months and whose head office is in Québec, or that pays more than half its payroll in Québec. In addition, the value of the assets of such corporation must be less than $100 million and no more than 50% of the value of such assets can consist of investments.

Accordingly, as with the SSP, an individual may deduct in calculating his taxable income for a year 100% of the acquisition cost of a common share issued by an eligible issuing corporation as part of public offering carried out in accordance with the requirements of the plan. As with the SSP, the deduction on this account may not exceed 10% of the individual's total income for the year. In addition, to benefit fully from the plan, an individual must also, for a period of three years, maintain in his Accro PME account, shares eligible for the plan with a cost equivalent to the deductions claimed during such period.

This plan is designed to foster the growth of Québec companies by increasing their permanent capitalization and improving the liquidity of their listed shares. In addition, by reducing the financial risk of investors, the plan also helps to direct capital to a market segment that generally draws less attention from stock market investors.

— Flow-through shares - basic deduction of 100% of Canadian exploration expenses, Canadian development expenses and expenses incurred in respect of Canadian assets pertaining to oil and gas (1987)

A taxpayer who acquires a flow-through share may, generally speaking, take advantage of a deduction equivalent to 100% of the cost of acquiring the share if the financing thus obtained by the issuing company is used to cover the cost of exploration or development work in respect of a mining, oil or gas resource and if the expenses thus incurred are subject to a waiver on behalf of the shareholder.

This measure is intended to foster the financing of mining, oil and gas exploration in Canada.

— Flow-through shares - additional deduction of 25% in respect of mining, oil and gas exploration expenses incurred in Québec

An individual who acquires a flow-through share may, in addition to the basic 100% deduction, take advantage of an additional deduction of 25% if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are mining, oil and gas exploration expenses incurred in Québec and which the company has waived.

The rate of this additional deduction was temporarily 10.42%, i.e. between June 12, 2003 and March 31, 2004.

This measure is intended to foster the financing of mining, oil and gas exploration in Québec.

— Flow-through shares - additional deduction of 25% in respect of surface exploration expenses incurred in Québec for mining exploration and for oil and gas exploration expenses incurred in Québec

An individual who acquires a flow-through share may, in addition to the 100% basic deduction and the additional deduction of 25%, take advantage of a further deduction of 25%, for a total of 150%, if the expenses incurred by the issuing company from the proceeds of the flow-through share issue are surface mining exploration expenses incurred in Québec and if the company has waived such expenses.

If the expenses in question are oil and gas exploration expenses incurred in Québec, an additional deduction of 25% is also allowed, for a total of 50% in additional deductions.

The rate of this additional deduction has changed over the years. It was 20.83% prior to March 31, 2004 and 50% prior to June 13, 2003.

This measure is intended to recognize the higher risks inherent in surface mining exploration work and in oil and gas exploration.

— Québec Business Investment Companies (QBICs) (1986 and 1998)

A QBIC is a company that collects funds from individuals to invest them in small and medium-size enterprises (SMEs) operating in eligible sectors. The investment in the SME (the eligible investment) cannot exceed $10 million and triggers the tax benefit.

The deduction allowed to a QBIC shareholder is equal to 150% (or 100% in the case of an eligible convertible preferred share) of the value of the shareholder's interest in the eligible investment when the assets of the SME are less than $25 million, and 125% (or 75% in the case of an eligible convertible preferred share) of the value of the shareholder's interest in the eligible investment when the assets of the SME are between $25 million and $50 million. Convertible preferred shares were introduced as an eligible investment on July 11, 2002.

However, a taxpayer's deduction in this regard may not exceed 30% of his "total income".

This measure is intended to promote the permanent capitalization of SMEs that have not yet reached a sufficient size to make a public share offering and facilitate the raising of the venture capital needed to ensure their growth.

It was announced in the June 12, 2003 Budget Speech that the utility of this measure would be studied and that during this period, a moratorium would apply, as a general rule, to eligible investments made after June 12, 2003. This moratorium is still in effect as at June 30, 2006.

— Additional capital gains exemption for certain assets relative to resources (1992)

The capital gain realized by a taxpayer who disposes of an asset is usually equivalent to the difference between the price obtained when the asset is sold and the price paid when it was acquired.

When the asset is a flow-through share, the price paid to acquire the share is deemed to be null, given that such a share usually gives rise to substantial tax deductions.

Consequently, the full amount received when such a share is sold represents a capital gain, independently of the price actually paid at the time of acquisition.

However, insofar as the owner of the flow-through share obtained the tax deductions because exploration costs were incurred in Québec, the capital gain that would be realized, up to an amount equivalent to the purchase price of the share, may be exempt.

A moratorium has applied to this fiscal measure regarding flow-through shares issued, subject to certain transition rules, after June 12, 2003 and before March 31, 2004. Shares issued during this period and covered by this moratorium could not give rise to this fiscal measure.

This measure is intended to promote the financing, through the acquisition of flow-through shares, of mining, oil and gas exploration conducted in Québec.

— Cooperative investment plan (1985 and 2004)

Generally speaking, the cooperative investment plan (CIP) enables a member or an employee of an eligible cooperative to obtain a deduction when he acquires a unit in the cooperative. This deduction is also available to workers employed by cooperative partnerships or subsidiaries of cooperatives.

The CIP deduction depends on the adjusted cost of the acquired unit of the eligible cooperative. The adjusted cost of such a unit is obtained by multiplying the acquisition cost of the unit (determined without including borrowing expenses and other expenses inherent in the acquisition) by the appropriate adjustment rate.

If the unit of the eligible cooperative was acquired before June 13, 2003, the applicable adjustment rates are as follows:

- 150% in the case of a unit acquired from a small or medium-size cooperative under an investment program for workers;
- 125% in the case of a unit acquired from a small or medium-size cooperative, other than under an investment program for workers;
- 125% in the case of a unit acquired under an investment program for workers of a cooperative, other than a cooperative covered by the preceding points;
- 100% in other cases.

If a unit of an eligible cooperative is acquired after June 12, 2003 and before March 31, 2004, it cannot, because of the moratorium in effect regarding the CIP during this period, give rise to this deduction, unless the unit was acquired, in accordance with an agreement concluded no later than June 12, 2003 as part of an investment program for workers or a unit acquired from a labour cooperative (including a shareholding workers cooperative).

In such cases, the applicable adjustment rates for the purposes of calculating the deduction in respect of the CIP are as follows:

- 112.5% in the case of a unit acquired from of a small or medium-size cooperative under an investment program for workers;
- 93.75% in the case of a unit acquired from a small or medium-size cooperative, other than under an investment program for workers;
- 93.75% in the case of a unit acquired under an investment program for workers of a cooperative, other than a cooperative covered by the preceding points;
- 75% in other cases.

A reform of the CIP was announced in the March 30, 2004 Budget Speech. The components of this plan, from eligible cooperatives to eligible investors including the rules seeking to ensure the permanence of capital and the plan's integrity, were completely redefined to give rise to a new CIP applicable as of March 31, 2004.

Since March 31, 2004, only unit acquired from an eligible cooperative under this new plan can give rise to a deduction. In general, the deduction granted under the new CIP is equal to 125% of the cost of acquisition (determined without including borrowing expenses and other expenses inherent in the acquisition) of the unit.

However, a unit acquired under the former CIP before January 1, 2005 can also give rise to a deduction calculated using an adjustment rate of 75%, 93.75% or 112.5%, as the case may be, provided the unit was acquired, in accordance with an agreement concluded no later than June 12, 2003, under an investment program for workers or a unit acquired from a labour cooperative (including a shareholding workers cooperative).

The deduction granted under the CIP (former or new) cannot exceed, in a given year, 30% of the individual's total income. Essentially, an individual's total income corresponds to the excess of his net income determined without including income replacement indemnities received by virtue of a law over the exemption on taxable capital gains.

However, the unused portion of such a deduction may be carried forward for a period of five years, subject to the limit of 30% of total income.

This measure is intended to promote the growth of cooperatives by granting a tax benefit to members and employees who acquire preferred units issued by eligible cooperatives, essentially cooperatives other than financial or personal service cooperatives.

☐ TAX HOLIDAY FOR FOREIGN RESEARCHERS (R&D) (1987, 1998 AND 1999)

A personal income tax exemption is granted to specialized foreign researchers on the salary they earn during a maximum period of five years of research activity in a firm conducting scientific research or experimental development (R&D) in Québec.

Until June 12, 2003, this tax holiday consisted of a deduction in the calculation of the individual's taxable income, corresponding to an amount equal to 100% of his salary.

However, the amount of tax assistance of this tax holiday was changed in the June 12, 2003 Budget Speech and in the March 30, 2004 Budget Speech.

Briefly, for an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption an individual may claim for the purposes of this tax holiday applies to 75% of the salary paid to him in this regard. Concerning an employment contract concluded after March 30, 2004, this exemption corresponds to 100% of such salary for the first two years, 75% the third year, 50% the fourth year and 25% the fifth year.

A specialized foreign researcher is anyone not residing in Canada immediately prior to hiring and who is recognized as a specialized researcher by the ministère du Développement économique, de l'Innovation et de l'Exportation.

This measure is intended to facilitate the recruiting of specialized foreign researchers by companies that want to carry out R&D, thus encouraging the pursuit of these activities in Québec, and technology transfers.

☐ TAX HOLIDAY FOR FOREIGN EXPERTS (1999)

A personal income tax exemption is granted to foreign experts on the salary they earn during a maximum period of five years, in relation to their activities with a firm conducting scientific research or experimental development (R&D) in Québec.

Until June 12, 2003, this tax holiday consisted of a deduction in the calculation of the individual's taxable income, corresponding to an amount equal to 100% of his salary.

However, the amount of tax assistance of this tax holiday was changed in the June 12, 2003 Budget Speech and in the March 30, 2004 Budget Speech.

Briefly, for an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption an individual may claim for the purposes of this tax holiday applies to 75% of the salary paid to him in this regard. Concerning an employment contract concluded after March 30, 2004, this exemption corresponds to 100% of such salary for the first two years, 75% the third year, 50% the fourth year and 25% the fifth year.

A foreign expert is anyone not residing in Canada immediately prior to hiring and who is recognized by the ministère du Développement économique, de l'Innovation et de l'Exportation as an expert in the management or financing of innovation, commercialization abroad or transfer of leading technology.

This measure is intended to facilitate the recruiting of foreign experts by companies that want to carry out R&D, thus encouraging the pursuit of these activities in Québec, and technology transfers.

☐ TAX HOLIDAY FOR QUÉBEC SEAMEN (1996)

With respect to the remuneration that he receives prior to June 13, 2003, a seaman holding an eligibility certificate issued by the ministère des Transports (MTQ) and performing his duties on a ship operated by an eligible shipowner and engaged in the international transportation of goods could deduct in the calculation of his taxable income an amount equivalent to 100% of the remuneration received from this shipowner for the period during which the seaman worked on such a ship. The period of work on a ship must be at least ten consecutive days (30 consecutive days for assignment periods ending before March 14, 2000). The shipowner must be covered by an eligibility certificate issued by the MTQ. In particular, the shipowner must be a person residing in Canada or a company that is a foreign subsidiary of such a person.

However, the amount of tax assistance of this tax holiday was changed in the June 12, 2003 Budget Speech. Briefly, after June 12, 2003, this deduction now corresponds to 75% of the remuneration such a seaman receives from an eligible shipowner, rather than 100%.

This measure is intended to enhance the competitiveness of Québec shipowners and encourage them to employ Québec seamen.

☐ TAX EXEMPTIONS FOR THE EMPLOYEES OF AN INTERNATIONAL FINANCIAL CENTRE (IFC) (1986)

— Partial income tax exemption for the employees of an IFC

Provided that he fulfils the conditions otherwise applicable, an individual employed by a company or a partnership operating an IFC may take advantage of a partial income tax exemption. This exemption consists of a deduction in the calculation of taxable income.

In the June 12, 2003 Budget Speech, the percentage of an IFC employee's income eligible for the partial income tax exemption was reduced from 50% to 37.5%. In the March 30, 2004 Budget Speech, access to this measure was restricted to IFC employees more than 75% of whose duties with the IFC are devoted to the execution of qualified international financial transactions (QIFT). In addition, at the same time, a ceiling of $50 000 was introduced regarding this deduction. Previously, any employee more than 75% of whose duties were devoted to the operations of an IFC was eligible and no ceiling in money terms was applied to this partial exemption.

This partial exemption is granted to certain employees of a partnership or a limited partnership that operates an IFC in order to enable the partnership or the limited partnership to reduce the cost of IFC-related operations and thus gain a competitive edge for Montréal as a centre suited to the conduct of international transactions.

— Total income tax exemption for foreign specialists

Briefly, an individual who specializes in the field of qualified international transactions and who, immediately prior to the conclusion of his employment contract or his taking up employment with a partnership or a limited partnership operating an IFC, does not reside in Canada may take advantage of a total income tax exemption on his income from all sources. This exemption consists of a deduction in the calculation of taxable income.

Briefly, regarding an employment contract concluded before June 13, 2003, a foreign specialist can claim a total tax holiday for a period of five years. Regarding an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption an individual may claim for the purposes of this tax holiday applies to 75% of his income. Lastly, concerning an employment contract concluded after March 30, 2004, this exemption corresponds to 100% of his income for the first two years, 75% the third year, 50% the fourth year and 37.5% the fifth year.

This measure is intended to encourage foreign specialists to settle permanently in Montréal.

☐ TAX HOLIDAY FOR FOREIGN EXPERTS EMPLOYED BY A SECURITIES EXCHANGE OR SECURITIES CLEARING CORPORATION (2000)

Briefly, an individual who, for a taxation year, works exclusively or almost exclusively for a securities exchange or securities clearing corporation business carried on within the territory of the City of Montréal by an eligible corporation and who, immediately prior to the conclusion of his employment contract or the commencement of his employment as an employee of the eligible corporation, was not a resident of Canada, may claim an income tax exemption on his income from all sources.

Briefly, regarding an employment contract concluded before June 13, 2003, a foreign specialist can claim a total tax holiday for a period of five years. Regarding an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption an individual may claim for the purposes of this tax holiday applies to 75% of his income. Lastly, concerning an employment contract concluded after March 30, 2004, this exemption corresponds to 100% of his income for the first two years, 75% the third year, 50% the fourth year and 37.5% the fifth year.

The tax holiday for foreign experts applies regarding any individual who commences employment as a foreign expert with an eligible corporation after April 26, 2000 and before January 1, 2011, and is intended to encourage foreign specialists to settle permanently in Montréal.

☐ DEDUCTION FOR A MEMBER OF A PARTNERSHIP THAT OPERATES AN INTERNATIONAL FINANCIAL CENTRE (1998 AND 2000)

Originally, an IFC had to be operated by a corporation. However, to further stimulate the establishment of IFCs in Montréal, it was announced on June 23, 1998, that partnerships would be authorized to operate an IFC for fiscal years of partnerships ending after June 23, 1998.

However, regarding income tax, the benefit granted to a member of a partnership operating an IFC depends on whether the member is an individual who resides in Canada or another type of taxpayer. Briefly, since June 12, 2003, the deduction is equal to 75% of income from the IFC in the case of a member that is a corporation or a natural person who does not reside in Canada, and 22.5% of such income in the case of a member who is an individual who resides in Canada. Previously, this deduction was equal to 100% and 30% respectively.

☐ DEDUCTION FOR INDEPENDENT FINANCIAL DERIVATIVES TRADERS (2001)

As part of the strategic repositioning of its activities, the Montréal Exchange joined an international alliance of securities exchanges in the fall of 2000. However, one of the requirements of this alliance is that "open-outcry" trading activities in financial derivatives (FD) be transferred to an electronic trading platform. To maintain the vitality of the market and foster the liquidity of FD listed on the Montréal Exchange during the transition period required to implement an electronic trading platform, a fiscal measure was introduced to support independent FD traders for three and a half years, ending July 1, 2004.

Briefly, this measure consisted of a deduction in the calculation of the taxable income of an individual who, for a taxation year, carried on a business in Québec as an independent FD trader and who held an eligibility certificate issued by the Minister of Finance. The amount of the deduction an independent FD trader could claim was equivalent to the portion of such trader's income attributable to trading activities carried out through the electronic trading platform of the Montréal Exchange covering FDs listed electronically with the exchange. However, this deduction was limited to an amount of $200 000 per year and a cumulative ceiling of $600 000.

This measure was designed to help independent FD traders to migrate from "open-outcry" trading to the electronic trading platform of the Montréal Exchange.

☐ TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING FOR A CORPORATION THAT CARRIES OUT ACTIVITIES IN THE FIELD OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGIES IN CERTAIN DESIGNATED SITES (1997 AND 2000)

The concept of designated sites for carrying out activities in the field of new information and communications technologies was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI).

Subsequently, other sites were designated to carry out such activities and the concept was extended to them. Accordingly, creation of the Cité du multimédia was announced on June 15, 1998 while new economy centres (CNE) and the Centre national des nouvelles technologies de Québec were created in the March 9, 1999 Budget Speech.

Briefly, these measures were intended to support companies that undertook to carry out activities in the field of new information and communications technologies in these designated sites. These corporations can benefit from a number of fiscal measures.

Among others, a tax holiday was granted to foreign specialists employed by a company operating an enterprise in one of these designated sites.

Such a specialist who concluded an employment contract before June 12, 2003, and commenced employment, with a corporation that carries out activities in the field of new information and communications technologies in these various types of designated sites, no later than September 1, 2003 regarding such an employment contract may take advantage, for a period of five years, of a tax exemption on all of his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

A foreign specialist is deemed to be any person who did not reside in Canada immediately prior to being hired by a corporation carrying out activities in the field of new information and communications technologies in these various types of designated sites, whose duties with the corporation consist almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, other activities relating to the biotechnology sector, or a combination thereof and who holds an elegibility certificate.

Initially, this fiscal measure applied exclusively to foreign specialists employed by a corporation carrying out activities in a CDTI. In the March 14, 2000 Budget Speech, this measure was extended to foreign specialists of a corporation carrying out activities in the other designated sites.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax holiday.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that undertake to carry out activities in the field of new information and communications technologies in these various types of designated sites.

☐ TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING IN CERTAIN DESIGNATED BIOTECHNOLOGY SITES (2002)

A tax holiday was granted to foreign specialists employed by an eligible corporation carrying on a certified business in a designated biotechnology site. Such a foreign specialist who concluded an employment contract before June 12, 2003 and who commenced employment no later than September 1, 2003 regarding such an employment contract may take advantage, for a period of five years, of a tax exemption on all his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure was intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in a designated biotechnology site.

TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING IN THE NUTRACEUTICAL AND FUNCTIONAL FOODS SECTOR (2002)

A tax holiday similar to the one available to a foreign specialist working in certain designated biotechnology sites was available to a foreign specialist working for an eligible corporation carrying on a certified business in the Québec City region. Such a foreign specialist who concluded an employment contract before June 12, 2003 and who commenced employment no later than September 1, 2003 regarding such an employment contract may take advantage, for a period of five years, of a tax exemption on all his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure was intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the nutraceutical and functional foods sector in the Québec City region.

TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING FOR A CORPORATION THAT CARRIES OUT ACTIVITIES IN A BIOTECHNOLOGY DEVELOPMENT CENTRE (2001)

The concept of biotechnology development centres was introduced in the March 29, 2001 Budget Speech. The first biotechnology development centre was designated in Laval and others were subsequently designated elsewhere in Québec.

A corporation that carries out activities in a biotechnology development centre can benefit from a number of fiscal measures.

Among others, a tax holiday similar to the one available to a foreign specialist working for a corporation that carries out activities in the field of new information and communications technologies in certain designated sites is available for a foreign specialist working for a corporation carrying on a business in a biotechnology development centre.

A foreign specialist is deemed to be any person who did not reside in Canada immediately prior to being hired by a company operating an enterprise in a biotechnology development centre, whose duties with the company consists almost exclusively in providing training, conducting research and development, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, other activities relating to the biotechnology sector, or a combination thereof.

The level of this tax assistance was changed in the June 12, 2003 Budget Speech and in the March 30, 2004 Budget Speech.

Only a foreign specialist who concluded an employment contract before June 12, 2003, and who commenced employment with a corporation that carries out activities in a biotechnology development centre, whether or not in the course of carrying out an innovative project, no later than September 1, 2003 regarding such an employment contract, may take advantage, for a period of five years, of a tax exemption on all of his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

Concerning an employment contract concluded after June 12, 2003 and before March 31, 2004, only a foreign specialist working at a corporation that carries out an innovative project can claim a tax holiday. In that case, the income tax exemption such a specialist may claim, for a period of five years, for the purposes of this tax holiday, applies to 75% of the salary paid to him in this regard.

Lastly, concerning an employment contract concluded after March 30, 2004, a foreign specialist working at a corporation that carries out activities in a biotechnology development centre, whether or not in the course of carrying out an innovative project, can claim, for a period of five years, an exemption from tax on his income from such employment. In such a case, this exemption corresponds to 100% of such salary for the first two years, 75% the third year, 50% the fourth year and 25% the fifth year.

These fiscal measures are the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from these fiscal measures.

☐ TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING IN INNOVATION CENTRES (2002)

A tax holiday was granted to foreign specialists working for an eligible corporation carrying on a certified business in the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec. Such a foreign specialist who concluded an employment contract before June 12, 2003 and commenced employment no later than September 1, 2003 regarding such an employment contract, may benefit, for a period of five years, from an exemption on all his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure was intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec.

☐ TAX HOLIDAY FOR FOREIGN EXPERTS WORKING IN E-COMMERCE PLACE (2000)

The concept of E-Commerce Place was introduced on May 11, 2000. Briefly, the fiscal measures associated with this concept are designed to support job creation in field of e-commerce operation and development.

A tax holiday was granted to foreign specialists employed by a company that carries on a business in E-Commerce Place. Such a foreign specialist who concluded an employment contract before June 12, 2003 and commenced employment no later than September 1, 2003 regarding such an employment contract, may benefit, for a period of five years, from an exemption on all his income from such employment.

A foreign specialist is deemed to be any person who did not reside in Canada immediately prior to being hired by a corporation carrying on a business in E-Commerce Place, whose duties with the corporation consist almost exclusively in providing training, conducting research and development, development and operation of technological systems and infrastructures, performing specialized tasks from the standpoint of the management of innovation, marketing, technology transfers or financing innovation, or a combination of the foregoing responsibilities, and who holds an eligibility certificate issued by Investissement Québec.

This measure was intended to facilitate the recruiting of foreign specialists by corporations that carry on a business in E-Commerce Place.

☐ TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING IN THE E-BUSINESS SECTOR IN CERTAIN DESIGNATED SITES (2002)

A tax holiday was granted to foreign specialists employed by an eligible corporation that carries on a certified business in the Montréal E-Commerce Zone or in the Centre national des nouvelles technologies de Québec (CNNTQ). Such a foreign specialist who concluded an employment contract before June 12, 2003 and commenced employment no later than September 1, 2003 regarding such an employment contract, may benefit, for a period of five years, from an exemption on all his income from such employment. This exemption consists of a deduction in the calculation of taxable income.

This fiscal measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from the tax benefit.

This measure is intended to facilitate the recruiting of foreign specialists by corporations that carry on a certified business in the Montréal E-Commerce Zone or in the CNNTQ.

☐ TAX HOLIDAY FOR FOREIGN SPECIALISTS WORKING IN THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (1999)

An individual working as a foreign specialist in the Montréal Foreign Trade Zone at Mirabel (Mirabel zone) who concluded an employment contract before June 12, 2003 and who commenced employment no later than September 1, 2003 regarding such an employment contract, may take advantage of a five-year total income tax exemption.

In this regard, a foreign specialist designates an individual who is a manager or professional whose level of expertise is widely recognized in his milieu and who is employed in the Mirabel zone by a corporation operating an eligible business.

☐ TAX HOLIDAY FOR FOREIGN PROFESSORS (2000)

A personal income tax exemption is granted to foreign professors on the salary they earn during a maximum period of five years, in relation to their activities with a Québec university.

Until June 12, 2003, this tax holiday consisted of a deduction in the calculation of the individual's taxable income, corresponding to an amount equal to 100% of the individual's salary.

However, the amount of the tax assistance of this tax holiday was changed in the June 12, 2003 Budget Speech and in the March 30, 2004 Budget Speech.

Briefly, regarding an employment contract concluded after June 12, 2003 and before March 31, 2004, the income tax exemption that an individual can claim for the purposes of this tax holiday applies to 75% of the salary paid to him in this regard. Concerning an employment contract concluded after March 30, 2004, this exemption corresponds to 100% of such salary for the first two years, 75% the third year, 50% the fourth year and 25% the fifth year.

A foreign professor is anyone not residing in Canada immediately prior to hiring and who is recognized by the ministère de l'Éducation, du Loisir et du Sport as holding a doctorate in the field of science and engineering, finance, health or new information and communications technologies.

This measure is intended to facilitate the recruiting of foreign professors in these fields by Québec universities.

☐ TAX CREDIT FOR CONTRIBUTIONS TO A LABOUR FUND (FSTQ 1983 AND FONDACTION 1995)

An individual who acquires, as the first purchaser, shares issued by the Fonds de solidarité des travailleurs du Québec (FSTQ) or by the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi (Fondaction) is entitled to a non-refundable tax credit equal to 15% of the issue price paid for these shares, up to a total tax credit of $750 per year.

This measure is intended to facilitate the financing of the FSTQ and Fondaction in order to promote job creation and greater investment in small and medium-size Québec enterprises.

☐ TAX CREDIT FOR THE ACQUISITION OF SHARES OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS (2001)

An individual who acquires, as the first purchaser, shares issued by Capital régional et coopératif Desjardins is entitled to a non-refundable tax credit equal to 50% of the issue price paid for these shares, up to a total tax credit of $1 250 per year if the shares were acquired before March 24, 2006. For shares acquired after March 23, 2006, the tax credit is equal to 35% of the issue price paid for these shares, up to a total tax credit of $875 per year.

Capital régional et coopératif Desjardins is a joint stock company with the mission of marshalling venture capital for the resource regions of Québec and cooperatives.

This measure is designed to encourage taxpayers to participate in the economic development of resource regions and the growth of cooperatives in Québec.

1.4.7 Recognition of certain special situations

☐ REFUNDABLE TAX CREDIT FOR LODGING A PARENT (1992 TO 2005)

For years prior to 2006, a refundable tax credit of $550 was granted to an individual for each qualified parent whom he lodged in the dwelling he occupied. In order for the taxpayer to be entitled to this tax credit, the parent had to be 70 years of age or over, or 60 or over and suffering from a severe and prolonged impairment in mental or physical functions and, generally speaking, have lived with the individual for 12 consecutive months, at least six of them in the year for which the tax credit was claimed.

In applying this tax credit, the expressions qualified parent means the father, the mother, the grandfather and the grandmother, the uncle, the aunt, the great-uncle, the great-aunt or another direct ascendant of the individual or the individual's spouse.

The tax credit for lodging a parent was intended to recognize the social value of the gesture made by adults who lodge their parents at a time when financial constraints made it increasingly difficult to create new places in reception centres.

Beginning in 2006, this tax credit was replaced with a refundable tax credit for natural caregivers of adults.

❑ REFUNDABLE TAX CREDIT FOR NATURAL CAREGIVERS OF ADULTS (2006)

An individual may take advantage of a refundable tax credit of up to $1 000 in 2006 for each person who, throughout the minimum housing period, is an eligible relative whom he lodges. Generally speaking, the minimum housing period is 12 months, at least six of them in the year for which the tax credit is claimed.

This tax credit consists, for each eligible relative housed, of a universal basic amount, to which is added a supplement that is reduced on the basis of the eligible relative's income for the year for which the tax credit is claimed.

The reduction in the supplement applies at a rate of 16% for each dollar of the eligible relative's income in excess of the reduction threshold applicable for the year.

The various parameters of the refundable tax credit for natural caregivers, except for the reduction rate, are indexed automatically as of the 2007 taxation year.

Table 14

PARAMETERS USED TO DETERMINE THE REFUNDABLE TAX CREDIT FOR NATURAL CAREGIVERS

(Dollars)

	2006	2007[1]
Basic amount	550	562
Supplement reduced by income	450	460
Reduction threshold	20 000	20 440

(1) The parameters have been adjusted using an estimated index of 2.2%.

For the purposes of this tax credit, a person is considered an eligible relative of the individual if he or she satisfies the following conditions:

— the person is the child, grandchild, nephew, niece, brother, sister, father, mother, uncle, aunt, grandfather, grandmother, great-uncle, great-aunt of the natural caregiver or the natural caregiver's spouse or another direct ascendant of the natural caregiver or the natural caregiver's spouse;

— the person suffers from a severe and prolonged impairment in physical or mental functions, unless the person is 70 or over or would have turned 70 had the person not died before the end of the year for which the period applies, and is the father, mother, grandfather, grandmother, or another direct ascendant of the natural caregiver or the natural caregiver's spouse, or the uncle, aunt, great-uncle or great-aunt of the natural caregiver or the natural caregiver's spouse.

The refundable tax credit for natural caregivers of adults replaced, as of 2006, the various measures for natural caregivers of adults granted by the tax system, namely the tax credit for a dependant with an infirmity, the tax credit regarding the transfer of the unused portion of the tax credit for a person suffering from a severe and prolonged impairment in physical or mental functions to which the relative may have been entitled had he suffered from such impairment and the refundable tax credit for an adult lodging a parent.

The purpose of this tax credit is to better recognize the role played by extended families in supporting persons with a severe and prolonged impairment or aging persons.

☐ REFUNDABLE TAX CREDIT FOR HOME MAINTENANCE OF AN OLDER PERSON (2000)

The tax system grants an individual 70 years of age or over a refundable tax credit equivalent to 23% of the eligible expenses he has incurred to obtain recognized home support services (domestic services and direct personal services). However, the amount of expenses eligible for this tax credit is subject to an annual limit of $12 000, enabling the individual to receive a maximum tax credit of $2 760.

To take advantage of this tax credit, the individual must, in particular, pay the expenses incurred to obtain home support services by means of the employment service paycheque, which enables the taxpayer to obtain in advance the payment of the tax credit as he defrays the cost of these expenses.

Starting in 2007, this tax credit will be subject to new rules. The rate of the tax credit will rise from 23% to 25%, while the annual cap on eligible expenditures will be raised from $12 000 to $15 000. Accordingly, the maximum amount of the tax credit will rise, as of 2007, from $2 760 to $3 750.

In addition, the first $300 paid for recognized home support services will no longer be considered an expense eligible for the tax credit.

Lastly, use of the employment service paycheque mechanism to pay expenses eligible for the tax credit will cease as of January 1, 2007. The refundable tax credit for home maintenance of an older person will therefore be paid by Revenu Québec in the course of processing tax returns. However, Revenu Québec may, on request, pay the tax credit in advance.

The tax credit for home maintenance of an older person is designed to provide financial support for older persons who choose to remain in their home as long as possible.

☐ DEDUCTIONS FOR INHABITANTS OF REMOTE REGIONS (1987)

Individuals living in remote regions covered by regulation during a set period may take advantage of a deduction in respect of their residence and, if they enjoy because of their employment certain taxable benefits concerning travel, a deduction for travel. The deduction for their residence may reach $15 a day, without exceeding 20% of the taxpayer's income for the year, while the deduction for travel applies to two vacation trips paid by the employer per year and trips, without restriction, paid by the employer for medical reasons.

These deductions are integral for the inhabitants of regions located farther north (northern zone); the inhabitants of the intermediary zone are entitled to 50% of the eligible amount.

For years after 2002, the deductions for inhabitants of remote regions are not considered in the calculation of taxable income but rather in the calculation of net income; accordingly, they are taken into consideration in the calculation of the government assistance granted by transfer programs and the various tax credits that reduce with income, other than the tax credits for children or other dependants.

These deductions are intended to recognize the specific needs of the inhabitants of certain regions created by the remoteness of the regions and the high cost of living.

☐ REFUNDABLE TAX CREDIT FOR INDIVIDUALS LIVING IN A NORTHERN VILLAGE (1998)

An individual living in a territory established as a northern village municipality pursuant to the *Act respecting Northern villages and the Kativik Regional Government* may take advantage of a refundable tax credit. The basic amount of this tax credit depends on the number of months during which the individual lives in such a territory and his family situation.

For each month during which the individual inhabits this territory, he is entitled to an amount that is doubled when the individual has a spouse. For each of these months, the individual is also entitled to an amount for each child regarding which he or his spouse received a child assistance payment or deducted an amount as tax credit for adult children who are students (for 2001 to 2004, this amount was granted for each child regarding whom the individual or his spouse had deducted an amount as tax credit for dependent children).

The basic amount determined with respect to the individual is then reduced at the rate of 15% for each dollar of family income, i.e. the individual's net income and, as the case may be, his eligible spouse's income, established, for years prior to 2003, according to the rules of the simplified tax system, which exceeds the reduction threshold. The parameters of this tax credit (except the reduction rate) have been automatically indexed since 2002.

Table 15

PARAMETERS USED TO DETERMINE THE REFUNDABLE TAX CREDIT FOR INDIVIDUALS LIVING IN A NORTHERN VILLAGE

(Dollars)

	2001	2002	2003	2004	2005	2006	2007[1]
Monthly amount for the individual	35	36	37	38	39	40	41
Monthly amount for the spouse	35	36	37	38	39	40	41
Monthly amount per dependent child	15	15	15	15	15	15	15
Reduction threshold	26 000	26 700	27 095	27 635	28 030	28 710	29 340

(1) The parameters have been adjusted using an estimated index of 2.2%.

This tax credit is intended to recognize the specific needs of the inhabitants of northern villages created by the remoteness of the villages, climate and the high cost of living.

☐ REFUNDABLE TAX CREDIT FOR NEW GRADUATES WORKING IN A REMOTE RESOURCE REGION (2003 TO 2005)

For 2003 to 2005, an individual who had just graduated and moved to an eligible remote resource region to hold an eligible job there could claim, subject to certain conditions, tax relief consisting of a refundable tax credit of up to $8 000.

Generally speaking, individuals who began to hold, after March 11, 2003 and within the 24 months following the date at which they had successfully completed the training leading to a recognized diploma, a job related to their field of specialization in a remote resource region were eligible for this tax credit.

For the purposes of this tax credit, the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine, the Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac and Mékinac RCMs and the agglomeration of La Tuque constitute remote resource regions.

The purpose of the refundable tax credit for new graduates was to encourage young graduates to remain in or move to a remote resource region to acquire their first job experience in their field of specialization.

To further encourage young graduates to remain in the remote resource regions, the tax assistance intended for these new graduates is, as of 2006, granted in the form of a non-refundable tax credit and spread out over a minimum of three years.

❑ TAX CREDIT FOR NEW GRADUATES WORKING IN A REMOTE RESOURCE REGION (2006)

As of 2006, an individual who has just graduated and moves to an remote resource region to hold a job there that relates to his field of specialization can claim, subject to certain conditions, a non-refundable tax credit that enables him to reduce his tax payable by up to $3 000 a year, without exceeding a total of $8 000, as long as he resides continuously in a remote resource region and holds in that region a job related to his field of specialization.

For the purposes of this tax credit, the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine, the Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac and Mékinac RCMs and the agglomeration of La Tuque constitute remote resource regions.

The purpose of this tax credit is to curb the exodus of young people from remote resource regions and to influence young graduates to move into those regions.

❑ DEDUCTION FOR LODGING OF MEMBERS OF A RELIGIOUS ORDER (1972)

An individual who is a member of the clergy or a religious order or a regular minister of a religious denomination may, subject to certain limits and conditions, deduct his housing expenses. The same is true of the value of the residence or dwelling that he occupies because of his employment, provided that this value is included in the calculation of his income for the year.

The special regime for expenses relating to the lodging of members of a religious order reflects the particular nature of the contributions and the situation of such members.

❑ TAX CREDIT FOR MEMBERS OF A RELIGIOUS ORDER (1988 TO 2002, EXISTED PREVIOUSLY AS AN EXEMPTION)

A member of a religious order who has taken vows of perpetual poverty was entitled, until 2002, to a non-refundable tax credit of $822 (2001) and $792 (2002).

Under the 1972 tax reform, it was decided to subject to taxation the income of the members of a religious order who had taken a vow of perpetual poverty and to grant them an additional exemption, which, at the time, was equivalent to the exemption accorded married persons. This exemption was based on the premise that a taxpayer who is a member of a religious order provides for the needs of the members of his community who do not have income.

This tax credit was eliminated in 2003 because of the increase of the limit established on the basis of the donor's income that applies for the purposes of calculating the tax credit for donations. For donations made in favour of a religious order that qualifies as a registered charity, this limit was raised from 75 to 100% of the income of a member of such an order who has made a vow of perpetual poverty.

☐ REFUNDABLE TAX CREDIT FOR TOP-LEVEL ATHLETES (2000)

Athletes recognized by the Secrétariat au loisir et au sport as belonging to the "Excellence", "Élite" or "Relève" performance level may claim a refundable tax credit. The value of this tax credit can reach $4 000 when the athlete belongs to the Excellence or Élite level, and $2 000 at the Relève level.

For each combination of level of performance and type of sport (individual or team), indicated in the attestation issued for the year to an individual, the tax credit granted for that year is equal, in proportion to the number of days, to the amount given in the following table for such combination.

Table 16
MAXIMUM AMOUNT OF THE REFUNDABLE TAX CREDIT FOR TOP-LEVEL ATHLETES
(Dollars)

	Excellence	Élite	Relève
Individual sport	4 000	4 000	2 000
Team sport	2 000	2 000	1 000

This measure aims to contribute to the development of sports in Québec and further support top-level athletes in the pursuit of sports excellence.

1.4.8 Retirement

☐ REGISTERED RETIREMENT SAVINGS PLAN (1972)

There are two types of tax benefits inherent in registered retirement savings plans (RRSPs), i.e. the deductibility of the contributions paid into such plans and the non-taxation of the investment income accumulated therein.

Contributions are limited to 18% of earned income during the preceding taxation year, up to a maximum of $13 500 for 2001 and 2002, $14 500 for 2003, $15 500 for 2004, $16 500 for 2005, $18 000 for 2006 and $19 000 for 2007, less a pension adjustment based on the contributions paid to a registered pension plan and, as the case may be, a deferred profit-sharing plan.

The amounts invested in an RRSP and the investment income generated by the plan are taxable when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and a tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions. They may also take advantage of income splitting if they contribute to a spousal RRSP.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

☐ REGISTERED PENSION PLAN (1972)

The tax benefits inherent in recognized pension plans, called registered pension plans (RPPs) in the tax legislation, are of two types: the deductibility of contributions paid into such plans and the non-taxation of the investment income accumulated therein.

In the case of defined contribution registered pension plans, the amount deductible in respect of contributions to the plan for employers and employees may not exceed the ceiling established for the year, i.e. $13 500 for 2001 and 2002, $15 500 for 2003, $16 500 for 2004, $18 000 for 2005, $19 000 for 2006 and $20 000 for 2007.

In the case of defined benefit registered pension plans, the amount an employee may deduct in the calculation of his income in respect of contributions to the plan is not subject to any ceiling. However, employer contributions are limited to the amounts necessary to cover the full funding of the anticipated benefits. The annual benefits of this type of RPP are limited to 2% of average remuneration per year of pensionable service, up to a maximum of $1 722.22 for 2001 to 2003, $1 833 for 2004, $2 000 for 2005, $2 111.11 for 2006 and $2 222.22 for 2007.

The amounts invested in an RPP and the investment income arising therefrom are taxed when the funds are withdrawn.

Taxpayers benefit simultaneously from the deferral of tax on investment income and, eventually, a tax saving insofar as the tax rate on withdrawals is lower than the rate in effect when the deduction was granted in respect of the payment of contributions.

Taxpayers can save money for retirement and thus avoid relying on the government at that time.

☐ DEFERRED PROFIT-SHARING PLAN (1972)

An employer may pay, on behalf of his employees, tax deductible contributions to a deferred profit-sharing plan (DPSP). Essentially, this plan consists in an arrangement under which an employer pays part of his company's annual profits to a trustee, who holds and invests this contribution for the benefit of the employees participating in the plan.

When the employees withdraw the funds accumulated in such a plan, the funds are taxable.

The contribution that an employer pays into a DPSP in respect of an employee may not exceed the lesser of the following amounts: 18% of the employee's remuneration and $6 750 for the years 2001 and 2002, $7 750 for 2003, $8 250 for 2004, $9 000 for 2005, $9 500 for 2006 and $10 000 for 2007. However, this limit is reduced if the total contributions paid by the employer to an employee registered pension plan and to a DPSP exceeds $13 500 for the years 2001 and 2002, $15 500 for 2003, $16 500 for 2004, $18 000 for 2005, $19 000 for 2006 and $20 000 for 2007.

This plan allows employees to save for retirement while participating in the company's growth and fosters cooperation between employees and their employers.

☐ TAX CREDIT FOR RETIREMENT INCOME (1975)

The tax system allows a non-refundable tax credit to individuals receiving certain types of retirement income. This tax credit is calculated on the basis of a maximum of $1 000 received in the form of eligible retirement income.

Retirement income that is eligible for the application of this tax credit includes, in particular, life annuity payments under a pension plan, payments from a registered retirement savings plan and payments from a registered retirement income fund. However, such income does not include amounts received pursuant to the *Old Age Security Act* and the *Act respecting the Québec Pension Plan*.

The amount for retirement income has been added to the amount granted with respect to age and the amount for a person living alone with the corresponding amounts, as the case may be, of which the individual's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the individual's family income, i.e. the individual's net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (2001), $26 700 (2002), $27 095 (2003), $27 635 (2004), $28 030 (2005), $28 710 (2006) and $29 340 (2007)[9]. The total of these amounts thus reduced is converted into a tax credit that can be shared between the spouses, at rates of 20.75% (2001) and 20% (starting in 2002).

The tax credit for retirement income was introduced to better protect the retirement income of elderly Quebecers against inflation.

☐ TAX CREDIT WITH RESPECT TO AGE (1972)

The tax system allows persons 65 years of age or over a non-refundable tax credit calculated on the basis of an amount of $2 200 that reduces with income.

The amount of the tax credit with respect to age is added to the amount granted for retirement income and the amount for a person living alone with the corresponding amounts, as the case may be, of which the individual's spouse may take advantage. The combined amount is reduced once. The rate of this reduction is 15% for each dollar of the individual's family income, i.e. the individual's net income and, as the case may be, that of his eligible spouse, determined for the years prior to 2003, according to the rules governing the simplified tax system, that exceeds $26 000 (2001), $26 700 (2002), $27 095 (2003), $27 635 (2004), $28 030 (2005), $28 710 (2006) and $29 340 (2007)[10]. The total of these amounts thus reduced is converted into a tax credit that can be shared between the spouses, at rates of 20.75% (2001) and 20% (starting in 2002).

This measure is designed to reduce the tax burden on elderly Quebecers.

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[9] Adjusted using an estimated index of 2.2%.

[10] Adjusted using an estimated index of 2.2%.

1.4.9 Health

☐ TAX CREDIT FOR MEDICAL EXPENSES (1988, EXISTED PREVIOUSLY IN THE FORM OF A DEDUCTION)

An individual who pays his own eligible medical expenses and those of his spouse and dependants was entitled to a non-refundable tax credit in respect of the portion of his eligible medical expenses that exceed 3% of his family income, i.e. the individual's net income and his eligible spouse's net income determined, for the years 2001 and 2002, according to the rules governing the simplified tax system. This portion of eligible medical expenses is converted into a tax credit at rates of 20.75% (2001) and 20% (starting in 2002).

When medical expenses giving rise to the tax credit included expenses paid for a dependant, other than the individual's spouse, the amount of the tax credit was reduced by an amount representing 58% of the excess of such person's income over the amount of recognized essential needs, i.e. $5 900 for 2001 and $6 060 for 2002. Beginning in 2003, the income of such dependant no longer reduces the amount of the tax credit for medical expenses to which an individual is entitled.

This tax credit is intended to offset a portion of the medical expenses that a taxpayer bears when such expenses exceed a certain level of income.

☐ REFUNDABLE TAX CREDIT FOR MEDICAL EXPENSES (1997)

The refundable tax credit for medical expenses, which is available to individuals whose earned income is equal to or greater than the minimum earned income stipulated for the year, corresponds to 25% of the portion of their eligible medical expenses that exceeds 3% of their family income, up to the maximum amount applicable for the year. However, this tax credit is reducible at the rate of 5% for each dollar of family income, i.e. the taxpayer's net income and his eligible spouse's net income determined, for 2001 and 2002, according to the rules governing the simplified tax system, in excess of the reduction threshold applicable for the year.

Since 2004, a worker suffering from a mental or physical impairment can also include, in calculating this tax credit, an amount corresponding to 25% of the amount deducted, in calculating his income for the year, on account of support measures for handicapped persons.

The following table shows the parameters used for calculating this tax credit.

Table 17

PARAMETERS USED TO DETERMINE THE REFUNDABLE TAX CREDIT FOR MEDICAL EXPENSES

(Dollars)

	2001	2002	2003	2004	2005	2006	2007[1]
Maximum amount[2]	500	515	525	535	750	1 000	1 022
Minimum earned income[3]	2 500	2 500	2 500	2 500	2 500	2 560	2 615
Reduction threshold[4]	17 500	17 970	18 235	18 600	18 865	19 325	19 750

(1) The parameters have been adjusted using an estimated index of 2.2%.

(2) The maximum amount of the tax credit has been automatically indexed since 2002. However, to increase the tax relief provided by this tax credit and to enable more workers to have access to it, the maximum amount was set at $750 for 2005 and at $1 000 for 2006. As of 2007, the maximum amount will once again be indexed automatically.

(3) The minimum earned income has been automatically indexed since 2006.

(4) The reduction threshold has been automatically indexed since 2002.

The refundable tax credit for medical expenses is a measure aimed essentially at encouraging people with disabilities to enter the job market, in view of the fact that entry into the job market can, for many of these people, mean the loss of the special benefits they receive under the last-resort assistance program to cover the special needs related to their state of health.

☐ TAX CREDITS RELATING TO MEDICAL CARE NOT PROVIDED IN THE REGION OF RESIDENCE (1989 AND 1992)

A taxpayer is entitled to a non-refundable tax credit equivalent to 20.75% (2001) and 20% (starting in 2002) of travel and lodging expenses or moving expenses he pays for himself or a dependant may obtain in Québec medical care that is not available less than 250 km from his place of residence.

These measures are intended to provide tax relief to taxpayers who must assume certain expenses to obtain specialized medical care that is available only in major urban centres.

☐ TAX CREDIT FOR A PERSON SUFFERING FROM A SEVERE AND PROLONGED IMPAIRMENT IN PHYSICAL OR MENTAL FUNCTIONS (1988, EXISTED PREVIOUSLY IN THE FORM OF A DEDUCTION)

Taxpayers who suffer from a severe and prolonged impairment in mental or physical functions that considerably restricts their ability to carry out a basic activity of daily living are entitled to a non-refundable tax credit. For years prior to 2006, this tax credit corresponds to an amount of $2 200, converted at rates of 20.75% (2001) and 20% (2002 to 2005). Since 2006, this tax credit corresponds to $2 250 (automatically indexed as of 2007), converted at a rate of 20%.

The unused portion of this tax credit is transferable to the spouse. For years prior to 2006, the unused portion of this tax credit was also, provided certain conditions were satisfied, transferable to a parent of the person suffering from such impairment.

For years after 2005, the transfer of the unused portion of the tax credit to a parent of a child under age 18 was replaced by an improved supplement for handicapped children granted under the refundable tax credit for child assistance, to standardize the tax assistance available regarding children with a serious handicap and to facilitate access to this assistance. All parents who are entitled to the supplement for handicapped children can benefit from this improvement, even if they pay no tax.

The transfer of the unused portion of the tax credit to a parent of an adult was replaced, as of 2006, by the refundable tax credit for natural caregivers of an adult to better recognize the role played by extended families in supporting persons with a severe and prolonged impairment.

The tax credit for a person suffering from a severe and prolonged impairment in mental or physical functions is designed to recognize the reduced capacity of taxpayers suffering from such an impairment, their spouse or their parents (for years prior to 2006) to pay tax because of the additional costs that they must assume.

1.4.10 Income support

☐ NON-TAXATION OF SOCIAL ASSISTANCE BENEFITS (1972 AND 1998)

Social assistance payments made to an individual on the basis of a means, needs or income test are not taxable. However, they are included in the calculation of the government assistance provided by various transfer programs and the refundable and non-refundable tax credits that reduce with income.

The social assistance payments covered by this non-taxation do not include last-resort financial assistance payments under the *Act respecting income support, employment assistance and social solidarity*, or the payments made under similar government assistance.

However, individuals whose last-resort financial assistance payments are the only source of income throughout the year pay no income tax on these payments, in view of the harmonization between taxation thresholds and transfer programs.

Social assistance payments that qualify as guaranteed income supplement or spousal allowance are described in greater detail below.

This measure is designed to provide taxpayers with basic support.

☐ NON-TAXATION OF FINANCIAL ASSISTANCE WITH RESPECT TO CHILD CARE EXPENSES RECEIVED UNDER GOVERNMENT EMPLOYMENT ASSISTANCE PROGRAMS (2000)

The financial assistance with respect to child care expenses granted to an individual under a government employment assistance program, like an active employment measure set up by Emploi-Québec or a program set up by the Canada Employment Insurance Commission, is not taken into consideration in determining the individual's income.

This measure is designed to recognize the costs incurred by parents actively seeking employment.

☐ DEDUCTION OF FINANCIAL ASSISTANCE PROVIDED FOR PAYMENT OF TUITION FEES RELATING TO BASIC ADULT EDUCATION (1997)

An individual who received financial assistance for the payment of his tuition fees under certain government employment assistance programs can deduct, in calculating his taxable income, the amount of such assistance provided, in particular, that such amount was included in calculating his income and relates to tuition fees that do not entitle him to the tax credit for tuition fees, such as tuition fees for primary level education or general education at the secondary level.

Essentially, this measure is designed to encourage taxpayers to improve their skills to enable them to more easily enter the labour market.

❑ NON-TAXATION OF THE GUARANTEED INCOME SUPPLEMENT AND SPOUSE'S ALLOWANCE (1972 AND 1975, RESPECTIVELY)

The guaranteed income supplement (GIS) is paid to retirees with low incomes receiving an old age pension. When the spouse of the beneficiary of the GIS (or a widower or a widow) is between the ages of 60 and 64, he may be entitled to the spouse's allowance. The amounts paid in respect of the GIS and the spouse's allowance are not taxable. However, these amounts are taken into consideration to determine the various tax credits that are reducible in light of a taxpayer's income, except for the tax credit for spouse for the years 2001 and 2002.

The amount of the GIS and the spouse's allowance is set bearing in mind that these benefits are not taxable.

The non-taxation of GIS and the spouse's allowance reflect the fact that these benefits based on income ensure basic support to elderly Quebecers whose income, for all practical purposes, is limited to old age security benefits.

❑ NON-TAXATION OF BENEFITS RECEIVED UNDER A PUBLIC INDEMNITY PLAN (1972, 1978 AND 2004)

Benefits that consist of an income replacement indemnity or compensation for the loss of financial support and are paid, following an accident, employment injury, death or bodily injury (or with a view to preventing such injury), in accordance with a public indemnity plan are not taxable.

However, these benefits are included in the calculation of the government assistance provided by various transfer programs and the refundable and non-refundable tax credits that reduce with income, with the exception of the tax credit for spouse for 2001 and 2002.

The benefits covered by this non-taxation include in particular income replacement indemnities paid under the *Act respecting industrial accidents and occupational diseases* – note that the contributions paid by employers under this legislation to fund payment of benefits stipulated therein are deductible in the calculation of business income – and those paid under the *Automobile Insurance Act* or the *Crime Victims Compensation Act*.

The amount of these benefits is set bearing in mind that these benefits are not taxable. In many cases, they are determined on the basis of after-tax net income. For instance, income replacement indemnities received pursuant to the *Act respecting industrial accidents and occupational diseases* correspond generally to 90% of net after-tax employment income.

Considering that, in such cases, the personal tax credits and basic compulsory employee contributions are taken into account both in the method used to determine these benefits and in the calculation of tax payable by their recipients regarding their other income, the tax system stipulates, since 2004, that these recipients must make an adjustment in the calculation of their tax payable.

☐ NON-TAXATION OF CERTAIN INCOME FROM INDEMNITIES REGARDING PHYSICAL OR MENTAL INJURIES (1972)

When a person sustains a physical or mental injury and he is indemnified for such injury, the investment income generated by this amount or by replacement property is exempt from tax until the end of the year in which the person reaches the age of 21.

Indemnities awarded in respect of physical or mental injuries are not usually taxable since they do not constitute income but instead, compensation for the loss of human capital. In the absence of an exceptional provision, the revenue generated by such capital would, however, be taxable.

☐ NON-TAXATION OF DEATH BENEFITS UP TO $10 000 (1972)

Death benefits paid by an employer to a taxpayer following an employee's death in recognition of the services rendered by the employee in the course of his employment are not taxable, up to $10 000.

This measure is designed to relieve the difficulties dependants must face upon the death of individual who supported them.

The amounts paid in death benefits by an employer are deductible in the calculation of his business income.

☐ NON-TAXATION OF PENSIONS AND INDEMNITIES (INJURY, DISABILITY OR DEATH) PAID TO RCMP OFFICERS (1972)

Pensions and various indemnities relating to injury, disability or death paid to Royal Canadian Mounted Police (RCMP) officers are not taxable.

This measure takes into account the fact that such benefits constitute, to a large extent, a form of indemnity to the national police force of Canada and to their family for a capital loss suffered by members of this force injured while on duty.

❑ NON-TAXATION OF ALLOWANCES OF WAR VETERANS, INCOME SUPPORT BENEFITS, WAR PENSIONS AND ALLOWANCES PAID TO CIVILIANS AND OTHER MILITARY PENSIONS (INCLUDING THOSE PAID BY ALLIED COUNTRIES) (1972 AND 2006)

The amounts paid to veterans and the war pensions and allowances paid to other persons pursuant to certain statutes are not taxable.

Introduced in 2006, income support benefits enjoy the same tax treatment.

This measure takes into account the fact that such benefits constitute a basic support for the persons concerned.

❑ NON-TAXATION OF DISABILITY PENSIONS OF WAR VETERANS AND DEPENDANTS' SUPPORT ALLOWANCES (1972)

Financial compensation paid to veterans because of a battle injury and those paid to their dependants are not taxable.

This measure takes into account the fact that such benefits constitute a basic support for the persons concerned.

❑ NON-TAXATION OF CERTAIN BENEFITS PAID TO WAR VETERANS (2006)

The amounts paid to veterans on account of a disability benefit, a death benefit, a clothing allowance or captivity benefit are not taxable.

This measure takes into account the fact that such benefits constitute a basic support for the persons concerned.

❑ ALIMONY AND SUPPORT ALLOWANCE (1972 AND 1997)

Following a divorce or separation, the amounts paid as alimony or a support allowance are, subject to certain conditions, deductible in the calculation of the support-payer's income and must be included in the beneficiary's income.

In principle, the support-payer's ability to pay tax is reduced by the payment of alimony, while the recipient's ability to pay tax increases.

However, alimony received for the benefit of a child under a court order or a written agreement handed down or concluded, as the case may be, after April 30, 1997, is no longer taxable in the hands of the beneficiary parent and may no longer be deducted by the support-payer.

1.4.11 Other specific measures

☐ NON-TAXATION OF GIFTS AND BEQUESTS (1985)

No tax on gifts or succession duty is payable when property is transferred by donation between living persons or because of death, as the case may be.

The elimination of the tax on gifts and of succession duties was announced in the April 23, 1985 Budget Speech. The announcement acknowledged that the transfer of property under such circumstances could give rise to a capital gain on which income tax had already been levied. Québec was the only jurisdiction in Canada to levy a tax on gifts and succession duties.

☐ NON-TAXATION OF INCOME OF INDIANS ON A RESERVE (1972)

Pursuant to the *Indian Act* and the *Cree-Naskapi (of Québec) Act*, the income of an Indian or an Indian band is not taxable if it is on a reserve or land in category IA or IA-N, hereinafter called "reserves".

Québec fiscal policy with respect to the *Indian Act* and the *Cree-Naskapi (of Québec) Act* is confined to recognizing the effect of these statutes, which fall under exclusive federal jurisdiction pursuant to the *Constitution Act, 1867*.

However, the Québec government considers certain establishments as reserves, although they are not, strictly speaking, reserves. Certain establishments group together Indian bands within a territory displaying all the traits of reserves, although they are not covered by the *Indian Act* or the *Cree-Naskapi (of Québec) Act*. In addition, for years prior to 2007, the Québec government extended the tax exemption stipulated in the foregoing statutes to certain persons of Indian ancestry.

In the tax system, this tax exemption consists of a deduction in the calculation of taxable income. This deduction covers any amount otherwise included in the calculation of income and that constitutes an income situated on a reserve.

☐ NON-TAXATION AND DEDUCTION FOR EMPLOYEES OF CERTAIN INTERNATIONAL ORGANIZATIONS

— Non-taxation and deduction for employees of certain international governmental organizations (IGOs) (1972 and 1991)

A non-Canadian employee of an IGO, e.g. the International Civil Aviation Organization, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family, may, if they satisfy certain conditions, take advantage of a total income tax exemption.

An individual employed either by the United Nations (UN) or a specialized agency attached to the UN may deduct in the calculation of his taxable income the income derived from such employment, provided that the IGO is not established in Québec. The same is true for an employee of such an organization that is established in Québec, provided that the organization has concluded an agreement with the government stipulating an income tax exemption in respect of the remuneration derived from such employment.

The fiscal policy is intended to promote the establishment in Québec of IGOs.

— Non-taxation for the employees of certain international non-governmental organizations (INGOs) (1986)

A non-Canadian employee of an INGO, e.g. the International Air Transport Association and the Société internationale de télécommunications aéronautiques, which is established in Québec and has concluded an agreement with the government, and the members of the employee's family may, if they satisfy certain conditions, take advantage of a total income tax exemption.

This measure is intended to promote the establishment in Québec of INGOs.

☐ NON-TAXATION OF GOVERNMENT HOUSING PURCHASE OR RENOVATION ASSISTANCE PROGRAMS (1981)

The subsidies and interest rate discounts offered under government housing purchase or renovation assistance programs, e.g. the *Programme de revitalisation des vieux quartiers*, are not generally taxable.

The taxation of the amounts granted under these programs would generally curtail the effective attainment of the objectives set.

❑ DEDUCTION OF MOVING EXPENSES (1972)

Generally speaking, reasonable moving expenses, e.g. transportation expenses, living expenses, the cost of temporary housing, and so on, incurred by a taxpayer are deductible if the taxpayer moves to a place that is within at least 40 km of the place where he is to take up employment, operate a business or study full time. However, the portion of the moving expenses paid or reimbursed by the employer is not deductible.

The amount of this deduction is limited to income earned after the move. If the income thus earned is insufficient, the portion of the moving expenses not deducted may be deducted the following year. The expression "earned income" means employment income, business income and income from research grants.

The tax system thus compensates taxpayers in respect of the costs they assume to take up a new job, operate a new business or engage in post-secondary studies. This measure mainly promotes worker mobility.

❑ ASSISTANCE FOR PROSPECTORS AND PROSPECTING SPONSORS (1972)

When a prospector or a prospecting sponsor transfers a mining property in exchange for the shares of such a property, the tax payable is deferred until the spin-off. At that time, only part of the amount for which the mining property was transferred to the company must be included in income. This portion corresponds to the inclusion rate of a capital gain applicable at the time of the transfer of the shares.

❑ TAX CREDIT FOR DONATIONS (1993, EXISTED PREVIOUSLY IN THE FORM OF A DEDUCTION)

Individuals may claim a non-refundable tax credit for certain donations they make. This tax credit encompasses many constituent elements that relate either to the eligibility of the donation or to the calculation of the tax credit.

In general, a donation is eligible for the tax credit where it is made to a recognized donee. In addition to donations made to registered charities, to the State, to municipalities or to municipal or public bodies that perform a function of government, the following donations are also eligible for the tax credit:

- donations made to the United Nations or to one of its agencies;
- donations made to certain foreign universities or charities;
- donations made to certain housing corporations;

- donations made after December 18, 2002 to recognized political education organizations;
- donations to registered Canadian amateur sports associations and those made after March 30, 2004 to registered Québec amateur sports associations;
- donations made after March 30, 2004 to the Agence de la Francophonie or to one of its subsidiary bodies;
- donations made after March 23, 2006 to registered museum institutions;
- donations made prior to June 30, 2006 to recognized arts organizations;
- donations made after June 29, 2006 to registered cultural or communications organizations.

In some cases, a donation is eligible for the tax credit only if it covers specified property and is made to a recognized entity that in general has a mission compatible with the property in question.

Donations included in this category of eligible donations are as follows:

- donations involving cultural property or similar property, including donations involving the bare property of such property if they are made after July 11, 2002 as part of a recognized gift with reserve of usufruct or use, and made to certain public institutions or administrations, certain museum institutions or certain archival centres;
- donations involving land with undeniable ecological value, including donations involving a servitude affecting such land, and made, among others, to certain registered charities with an environmental mission in Québec, to the State or to Québec municipalities;
- donations involving a musical instrument and made, after March 23, 2006, to a recognized educational institution.

Moreover, the tax credit for donations is calculated using two rates. For the first $200 ($2 000 for 2001 to 2005) taken into account in calculating the tax credit, the applicable rate corresponds to 20.75% (2001) and to 20% (as of 2002), i.e. the rate used to convert recognized amounts to non-refundable tax credits.

For the second part taken into account, i.e. the amount in excess of the first $200 ($2 000 for 2001 to 2005), the applicable rate corresponds to 24.5% (2001) and to 24% (as of 2002), i.e. the maximum marginal rate applicable for purposes of calculating personal income tax.

The tax credit for donations is calculated taking into account the eligible amount of each donation made by an individual. If the donation is made prior to December 21, 2002, the eligible amount of the donation generally corresponds to the fair market value of the donated property. If the donation is made after December 20, 2002, the eligible amount of the donation corresponds to the excess of the fair market value (real or, if applicable, deemed) of the property donated over the amount of the advantage, where applicable, in respect of the donation or gift.

However, special rules apply for a donation of a work of art made to a Québec museum institution as well as to the donation of the bare property of a work of art made to such an institution as part of a recognized gift with reserve of usufruct or use. These rules are as follows:

- if the donation involves a work of art and is made prior to December 21, 2002 or if it involves the bare property of such work of art and is made between July 11 and December 21, 2002, the eligible amount of the donation is equal to the total of the amount representing the fair market value of the donated property (or the amount that is deemed as such) and 25% of such amount;
- if the donation involves a work of art or the bare property of such work of art and is made after December 20, 2002, the eligible amount of the donation is equal to the total of the excess of the fair market value of the donated property (or the amount deemed as such) over the amount of the advantage, where applicable, in respect of such donation – other than an advantage consisting of the usufruct or right of use if the donation involves the bare property of a work of art – and 25% of such excess.

As a general rule, the total of the amounts each of which represents the eligible amount of a donation is, for the purposes of calculating the tax credit, limited to a certain level of the donor's income.

This limit is set at 75% of the donor's income for the year in which the tax credit is claimed, unless the donor dies in such year, in which case the limit is set, for the year of death and the preceding year, at 100% of his income. The 75% limit may also be raised to 100% of the donor's income when in particular the object of the donation is capital property (for years prior to 2004, the capital property had to be linked to the donee's mission for the limit of 75% of the donor's income to be raised to 100% of such income).

Exceptionally, the rule designed to restrict, generally at 75% of the donor's income, the total of the eligible amounts of the donations used to calculate the tax credit does not apply to certain types of donations. The donations covered by this exception are donations of cultural property or similar property, donations of property with undeniable ecological value, gifts to the State prior to April 1, 1998, gifts to a religious order after December 31, 2002 by a member of such an order who has taken a vow of perpetual poverty as well as donations of musical instruments made after March 23, 2006 to a recognized educational institution.

Moreover, any part of the amount of donations made in a year that cannot be taken into account in calculating the tax credit may be carried forward five years, subject to the application, for each year of the carry-forward, if any, of the rule designed to restrict, generally at 75% of the donor's income, the total of the eligible amounts of the donations.

These measures are intended chiefly to promote the funding of organizations dedicated to charity, amateur sport, culture, communications or to political education. They are also intended to stimulate donations of works of art, musical instruments and property with cultural or ecological value.

☐ TAX CREDIT FOR CONTRIBUTIONS TO A POLITICAL PARTY (1977 AND 2001)

Québec electors may receive a non-refundable tax credit of up to $405 with respect to the contributions made to fund political activity at the municipal and national levels.

Only monetary contributions are eligible for this tax credit of 75%:

- of the first $140, when the contributions are paid to a party or an independent candidate authorized to receive such a contribution under the *Act respecting elections and referendums in municipalities*;
- of the first $400, when the contributions are paid to a political party, a party authority or an independent candidate authorized to receive such a contribution under the *Election Act*.

Since 2003, a new rule stipulates, in some cases, a reduction in the tax credit on the basis of the refund or any other form of assistance a taxpayer may have received regarding his contribution.

This measure is intended to facilitate the funding of political parties and encourage Quebecers to participate actively in democratic life.

☐ REFUNDABLE TAX CREDIT FOR HOLDERS OF A TAXI DRIVER'S OR TAXI OWNER'S PERMIT (1984 AND 2001)

An individual who holds a taxi driver's permit could claim a refundable tax credit of up to $500, unless he covered all or almost all the cost of the fuel to place in service any automobile associated with at least one of the permits of the taxi owner's which he may, otherwise, hold.

A taxpayer who holds one or more taxi owner's permits could claim a refundable tax credit of up to an amount equal to the product obtained by multiplying $500 by the number of taxi permits he holds if he covered all or almost all the cost of fuel to place in service any automobile associated with this permit.

However, the refundable tax credit for taxi a taxpayer may receive cannot exceed 2% of his total income from his employment as a taxi driver, from his taxi service business or from the rental of the automobile associated with a taxi owner's permit he holds.

The refundable tax credit for holders of a taxi driver's or taxi owner's permit is intended to provide assistance for the taxi industry.

☐ REFUNDABLE TAX CREDIT FOR THE RENEWAL OF THE TAXI FLEET (2001)

Since 2001, a taxpayer who holds a taxi owner's permit can claim a refundable tax credit of up to $500 per year for each taxi owner's permit with which an eligible vehicle is associated, i.e. a motor vehicle five years old or less, acquired or leased before January 1, 2006 and registered as a taxi.

The refundable tax credit for the renewal of the taxi fleet is intended to encourage holders of taxi owner's permits to use vehicles that are no more than five years old.

☐ PROPERTY TAX REFUND FOR FOREST PRODUCERS (1985)

The property taxes paid by forest producers actively engaged in developing their woodlots and possessing a certificate issued for this purpose by the ministère des Ressources naturelles et de la Faune may be subject to a refund, in an amount equivalent to 85% of the property taxes that the forest producers have paid in respect of their productive assets.

In this way, the tax system promotes the development of the Québec forest industry through the optimum development of private Québec woodlots.

☐ DEFERRAL OF TAXATION OF AN ELIGIBLE REBATE (2002)

Since February 21, 2002, a taxpayer who is member of an eligible cooperative can deduct, in calculating his taxable income, the amount of an eligible rebate attributed to him consisting of a preferred unit of such cooperative. Such a deduction enables a member of an eligible cooperative to defer taxation on the value of a rebate thus attributed to him. Upon the subsequent disposition of a preferred unit regarding which a deduction for eligible rebate was granted, the member must generally include, in calculating his taxable income, the amount of the deduction for rebate he claimed in relation to the unit disposed of.

For the purposes of this measure, an eligible cooperative means, briefly, a work cooperative, a shareholding workers cooperative, a producers cooperative, a farm producers cooperative, a solidarity cooperative or a federation of cooperatives most of whose assets are located in Canada and whose capitalization rate is less than 60%, and, at the end of its fiscal year ending before the taxation year in which an eligible rebate was attributed, whose senior management was carried out in Québec and which paid more than half of its salaries to employees of an establishment located in Québec.

This deduction applies in regard to an eligible rebate received after February 21, 2002 but no later than December 31, 2012.

This measure is intended to facilitate the capitalization of Québec cooperatives by encouraging their members to reinvest in them.

1.5 TAX MEASURES SHOWN FOR INFORMATION PURPOSES

1.5.1 Basic tax credit (1988 and 2005, existed previously in the form of an exemption)

The tax system grants all individuals (except in the case of a trust) a non-refundable tax credit calculated by multiplying the amount of recognized essential needs for an individual (subject to automatic indexing since 2002) by the conversion rate stipulated for the year.

Since 2005, a complementary amount is added to the amount of recognized essential needs of an individual to form the basic amount allowed for the purposes of calculating the basic tax credit. The complementary amount, introduced following the elimination of the simplified tax system, corresponds to the higher of a minimum amount – subject to automatic indexing – and the total of the following amounts:

- the amount payable by the individual for the year as employee premiums for employment insurance;
- the amount payable by the individual for the year (as of 2006) as employee premiums for the Québec parental insurance plan;

- the amount payable by the individual for the year as employee premiums for the Québec Pension Plan or an equivalent plan;
- the amount corresponding to 50% of the amount payable for the year by the individual as contributions on self-employment income to the Québec Pension Plan or an equivalent plan;
- the portion of the amount payable by the individual for the year (as of 2006) as premiums on self-employment income to the Québec parental insurance plan represented by the ratio between the rate for determining the premium of an employee and the rate for determining the premium of a self-employed worker for the year;
- the amount payable for the year by the individual for the purposes of the 1% contribution to the Health Services Fund.

Table 18

PARAMETERS USED TO DETERMINE THE BASIC TAX CREDIT

	2001	2002	2003	2004	2005	2006	2007[1]
Amount of recognized essential needs	$5 900	$6 060	$6 150	$6 275	$6 365	$6 520	$6 665
Minimum amount used to calculate complementary amount	n/a	n/a	n/a	n/a	$2 965	$3 035	$3 100
Conversion rate	20.75%	20%	20%	20%	20%	20%	20%

(1) Parameters subject to indexing have been adjusted using an estimated index of 2.2%.

For years prior to 2005, the basic tax credit was intended to avoid taxing income that taxpayers devotes to the satisfaction of their essential needs, e.g. food, housing, and so on, and made it possible to integrate income security transfers and taxation. Starting in 2005, the basic tax credit is also intended to maintain, following the elimination of the simplified tax system, the benefits that the flat amount provided for low- or middle-income taxpayers, while acknowledging the compulsory nature of certain contributions.

1.5.2 Employment insurance contributions (1972, 1993 and 2005)

The employment insurance system is a mandatory premium plan intended, provided certain conditions are satisfied, to provide for the payment of benefits to employees following a halt in remuneration.

For years prior to 2005, employee premiums paid by employees under federal employment insurance legislation were converted into a non-refundable tax credit at the rate of 20.75% (2001) and 20% (2002 to 2004). Beginning in 2005, these premiums are included in the individual's total eligible premiums for the purposes of determining the complementary amount used in the calculation of the basic tax credit.

Moreover, employer contributions to employment insurance are deductible in the calculation of business income and are not a taxable benefit in the hands of the employees.

These rules reflect the taxation of employment insurance benefits. Furthermore, employment insurance premiums are deemed to be an expense incurred to earn income.

This measure reflects the compulsory nature of these premiums and the fact that they have to be paid to earn income.

1.5.3 Parental insurance contributions (2006)

The Québec parental insurance plan (QPIP) is a mandatory premium plan designed to ensure the payment of benefits to eligible workers who take maternity, paternity, adoption or parental leave.

The premiums paid by employees to the QPIP are included in the individual's total eligible premiums for the purposes of determining the complementary amount used in the calculation of the basic tax credit.

Moreover, employer premiums to the QPIP are deductible in the calculation of business income and are not a taxable benefit in the hands of the employees.

The portion of the amount payable to the QPIP for a year as premium of a self-employed worker represented by the ratio between the rate for determining the premium of an employee and the rate for determining the premium of a self-employed worker for the year is included in the total eligible premiums for the purposes of determining the complementary amount used in the calculation of the basic tax credit.

The portion of the amount payable by an individual for a given year, as a self-employed worker's premium, that exceeds the employee's share gives entitlement to a deduction in the calculation of the individual's income for the year.

The applicable tax treatment ensues from the taxation of the benefits received under the QPIP, and takes into account the compulsory nature of contributions to this plan.

The measures applicable to self-employed workers are designed more particularly so that these workers are not disadvantaged with regard to owner-operators who are also employees of their company.

1.5.4 Contributions to the Québec Pension Plan (1972, 1993, 1999 and 2005)

The Québec Pension Plan (QPP) and the Canada Pension Plan (CPP) are public plans designed to partially replace the income of workers in the event of retirement, disability or death. Participation in these plans, which are very similar in terms of their benefits, contributions and eligibility conditions, is compulsory and they cover almost all workers, whether employees or self-employed workers.

For years prior to 2005, employee premiums to the QPP or the CPP were converted into a non-refundable tax credit at the rate of 20.75% (2001) and 20% (2002 to 2004). As of 2005, these premiums are included in the total eligible premiums for the purposes of determining the complementary amount used in the calculation of the basic tax credit.

Moreover, employer contributions to the QPP or the CPP are deductible in the calculation of business income and are not a taxable benefit in the hands of employees.

For 2001 to 2004, only half the premium payable by a self-employed worker to the QPP or the CPP can be converted into a non-refundable tax credit at rates of 20.75% (2001) and 20% (2002 to 2004). As of 2005, it is included in the total eligible premiums for the purposes of determining the complementary amount used to determine the basic tax credit. The other half of the premium paid by a self-employed worker entitles him to a deduction in calculating his net income.

The applicable tax treatment ensues from the taxation of the benefits received under the QPP or the CPP, and takes into account the compulsory nature of contributions to these plans.

The measures applicable to self-employed workers are designed more particularly so that these workers are not disadvantaged with regard to owner-operators who are also employees of their company.

1.5.5 Non-inclusion of the Universal Child Care Benefit in the calculation of tax credits determined on the basis of income (2006)

Since July 2006, families with children under age six can receive a Universal Child Care Benefit from the federal government.

This benefit is not included in income used to calculate the amount of assistance granted to households by the various tax credits determined on the basis of income, such as the refundable child assistance tax credit, the refundable tax credit for the QST, the refundable tax credit for child care expenses and the refundable tax credit granting a work premium.

This non-inclusion is designed to provide additional support for families with young children.

1.5.6 Tax credit for union and professional dues (1997, existed previously as a deduction)

Individuals who pay dues to a recognized professional association or a union can claim a non-refundable tax credit equal to the amount obtained by multiplying these dues by a rate of 20.75% (2001) and 20% (starting in 2002).

In virtually all cases, such dues are compulsory and are paid to allow for the occupation of a job or the operation of a business. Consequently, they may be deemed an expense incurred in order to earn income.

1.5.7 Deduction of certain employment-related expenses (1972)

Generally speaking, the expenses incurred by employees in respect of their office or employment are not deductible. However, certain specific expenses pertaining to an office or employment may be deducted in the calculation of the income derived therefrom, such as travel expenses (transportation, meals and lodging), supplies consumed directly in the accomplishment of their duties, and legal expenses paid to collect wages due.

This measure recognizes that certain expenses are necessary to earn employment income and is intended to ensure that only a taxpayer's real economic gain is taxed.

1.5.8 Non-taxation of allowances paid to certain public officers (1972)

An elected municipal official, a member of the National Assembly or the legislature of another province, or a member of the Senate or the House of Commons may, generally speaking, receive a non-taxable allowance in respect of expenses incurred in the accomplishment of his duties.

This measure is intended to recognize that a portion of the remuneration of an elected official or a member of the Senate is used to offset the expenses inherent in the performance of his duties. Employment expenses or expenses relating to an office are not usually deductible in the calculation of income.

1.5.9 Non-taxation of indemnities paid to diplomats and other government employees stationed abroad (1972)

Diplomats and other government employees stationed abroad receive a non-taxable income supplement intended to cover the additional costs inherent in a posting outside Canada.

The non-taxation of this supplement is intended to ensure that the amount paid to a diplomat or such employees in order to compensate them is not insufficient because of the tax treatment accorded the supplement.

1.5.10 Deduction of expenses of an attendant and for support measures of handicapped persons (1989 and 2004, respectively)

An individual suffering from a severe and prolonged impairment in physical or mental functions may deduct, in the calculation of his income, the expenses paid to a person to provide care that allows him to engage in employment, operate a business, conduct research or perform similar work for which he has received a grant and attend a recognized educational institution or secondary school.

For years prior to 2004, this deduction could not exceed two thirds of the individual's eligible income (essentially, the labour and student income).

Starting in 2004, the deduction was broadened and the eligible expenses can, in general, be deducted up to the individual's eligible income. This broadening enables an individual suffering from a mental or physical impairment to deduct expenses paid for certain eligible support products and services.

This measure is intended to facilitate the integration into the labour market of and access to studies for individuals suffering from a mental or physical impairment. It recognizes the additional expenses workers and students suffering from an impairment must pay and thus makes the tax system fairer between these taxpayers and those who are physically fit for work.

1.5.11 Expenses incurred to earn investment income (1972 and 2004)

According to the current tax provisions, a taxpayer can deduct, under certain conditions, expenses incurred during a taxation year in order to earn business or property income. However, for the years 1998 to 2002, except for expenses attributable to a business or the rental of property, such expenses were deductible solely in conjunction with the general tax system.

In order to consider that the expenses incurred to earn property income are attributable to the earning of passive income and, furthermore, to achieve a degree of symmetry between the flow of income from the investments held and the expenditures incurred to earn such income, a measure limiting the deductibility of investment expenses was announced in the March 30, 2004 Budget Speech, completing the general provisions on the deductibility of expenses.

Briefly, the deductibility of investment expenses otherwise deductible for a taxation year by an individual is now limited to the income from such investments earned during the taxation year. For the purposes of this measure, an individual includes personal trusts.

The investment expenses that cannot be deducted in a taxation year can be carried over against investment income earned in one of the three preceding taxation years or in any subsequent taxation year, provided the investment income earned in any of these years exceeds the expenses then deducted.

1.5.12 Dividend gross-up and tax credit (1972)

While an individual usually includes in the calculation of his income amounts actually received, the dividends of taxable Canadian corporations are subject to a gross-up in the calculation of income.

However, the individual may deduct from the tax otherwise payable an amount in respect of the dividend tax credit.

The gross-up rate of dividends from taxable Canadian corporations was 25%, regarding dividends paid or deemed paid before March 24, 2006, when the dividend tax credit corresponded, regarding such dividends, to an amount equal to 10.83% of the grossed-up dividend.

Following the announcement of changes to the treatment of dividends by the Minister of Finance of Canada, it was announced in the March 23, 2006 Budget Speech that Québec's tax legislation would be harmonized with these changes. However, the harmonization is with the principles of these changes since Québec's tax system stipulates different rates of dividend tax credit, and the changes apply regarding dividends paid or deemed paid after March 23, 2006.

Briefly, following these changes, the tax system distinguishes two categories of dividends each subject to different tax treatment. The first type of dividend is the specified dividend, which is paid out of the paying corporation's income taxed at the general corporate income tax rate. A historical account is used to calculate the dividend that can be considered a specified dividend. The second type of dividend is the ordinary dividend, which is paid out of the paying corporation's income taxed at the reduced corporate income tax rate, or out of the corporation's investment income taxed at the top corporate income tax rate.

Note that the Québec tax system makes full use of the federal account to determine whether a dividend must be considered a specified dividend or an ordinary dividend, regardless of existing differences between the Canadian and Québec tax systems.

Moreover, the Québec tax system stipulates, regarding specified dividends, a gross-up of 45%, and a dividend tax credit corresponding to an amount equal to 11.9% of the grossed-up dividend while ordinary dividends are grossed-up by 25% and are covered by a dividend tax credit corresponding to an amount equal to 8% of the grossed-up dividend.

These calculations are intended to establish some degree of neutrality in the tax treatment of dividend income compared to business or employment income, bearing in mind that the dividend represents the distribution of a company's profit, which has already been taxed in the company's hands.

1.5.13 Non-taxation of capital dividends (1972)

Private companies may pay their shareholders, in the form of capital dividends, the exempt portion (¼ before February 28, 2000, ⅓ between February 27, 2000 and October 18, 2000, ½ since October 18, 2000) of the capital gains realized and accumulated in their "capital dividend account". Such dividends are not taxable. The capital dividend account is the same as the one calculated for federal tax purposes.

This rule is intended to recognize that the exempted portion of the capital gain realized by a company must not be subject to a taxable dividend, otherwise the principle of the partial exemption of the capital gain could not be maintained when the gain is realized by a company. However, such a rule applies solely to private companies.

1.5.14 Carry-over of farm losses of part-time farmers (1972)

Individuals for whom farming is a secondary source of income may deduct against their other types of income their farm losses, up to a maximum of $8 750 a year.

The non-deductible portion in the current year may be carried back over three years and carried forward over 20 years, up to the equivalent of the income derived from a farming enterprise. However, such losses, when suffered during a taxation year ending prior to 2006, can be carried back for three years and carried forward for ten years.

This restriction is imposed on so-called hobby farmers who have a reasonable expectation of turning a profit. It has the effect of limiting the loss likely to be deducted against other sources of income, contrary to other business losses, which are unlimited.

This limit on the deduction of the loss against other sources of income is intended to ensure that the special provisions applicable to farmers are not used as a tax shelter by taxpayers who receive substantial non-farming income.

1.5.15 Carry-over of farm and fishing losses (1972)

Since 1983, farm and fishing losses have been subject to a carry-back of three years and a carry-forward of 20 years (previously ten years or seven years depending on when the losses were suffered).

This measure is intended to better match the income and losses attributable to these activity sectors within a business cycle.

1.5.16 Capital loss carry-over (1972)

A capital loss may result in the disposal of a capital asset.

A net capital loss, i.e. briefly, the excess of a taxpayer's eligible capital losses for a given year over his taxable capital gains in the same year, may be carried back over the three years preceding the year in which the loss is sustained and carried forward indefinitely in subsequent years. However, a taxpayer may usually only deduct a net capital loss against his net taxable capital gains.

The indefinite carry-forward stipulated in tax legislation reflects the nature of a capital gain or loss, which is not usually recurrent.

1.5.17 Carry-over of losses other than capital losses (1972)

Losses other than capital losses may be carried back for three years and carried forward for twenty years and charged against other income. However, such losses, when suffered during a taxation year ending prior to 2006 can be carried back for three years and carried forward for ten years and when suffered during a taxation year ending prior to March 23, 2004, can be carried back for three years and carried forward for seven years.

This measure is intended to better match income and losses in a given business cycle.

1.5.18 Non-taxation of lottery and gambling earnings (1972)

Lottery and gambling earnings are excluded from income for tax purposes.

Essentially, this exclusion stems from the fact that lottery winnings or gambling earnings are the result of chance and are not a recurrent source of income.

1.5.19 Foreign tax credit (1972)

An individual residing in Québec or a company residing in Canada and operating a business in Québec is entitled, subject to certain restrictions, to a tax credit in respect of tax paid to a government of a jurisdiction other than a Canadian jurisdiction.

This tax credit is intended to avoid double taxation and ensures that the taxpayer pays the greater of Québec tax attributable to income taxed abroad, or the foreign tax attributable to such income.

1.5.20 Credit for tax of another province (2002)

In some circumstances, a Québec beneficiary of a trust that resides in Canada, but outside Québec, is entitled to a tax credit in respect of amounts attributed to him but regarding which the trustee of the trust has elected to have them taxed in the hands of the trust.

This tax credit is designed to prevent the same amount from being taxed in more than one province. In general, this tax credit corresponds to the tax paid by the trust to a province other than Québec, in respect of amounts covered by such election.

1.5.21 Amounts exempt from tax under a tax agreement (1982 and 1987, existed previously as a non-inclusion)

The tax system stipulates that tax agreements between the Québec government and a foreign State take precedence to avoid double taxation and prevent tax avoidance regarding income tax and capital taxes.

If Québec does not have a tax agreement with a given State, the tax system considers certain provisions of tax conventions reached by the Canadian government. This recognition consists of a deduction in calculating taxable income in respect of amounts that, under the terms of the convention, are taxable solely in the foreign State.

The purpose of this measure is to avoid double taxation.

2. TAX EXPENDITURES RELATED TO THE CORPORATE TAX SYSTEM

2.1 INCOME TAX

2.1.1 Reduced tax rates and exemptions

☐ REDUCED TAX RATE FOR SMALL BUSINESSES (2006)

Since January 1, 2006, most Canadian-controlled private corporations (CCPC) are entitled to a reduction in their tax rate, commonly called the "small business deduction" (SBD).

This reduced tax rate was announced in the April 21, 2005 Budget Speech and applies simultaneously with an increase in the general tax rate applicable to active income, as of January 1, 2006.

Initially, the SBD reduced (and maintained) the rate of Québec income tax applicable on the first $400 000 of income from an eligible business carried on by a CCPC from 8.9% to 8.5%. An increase in the SBD was announced in the March 23, 2006 Budget Speech to further reduce the tax rate applicable to this type of income, i.e. from 8.5% to 8% as of March 24, 2006.

Accordingly, in view of the gradual rise in the tax rate applicable to active income and the additional reduction applicable since March 24, 2006, the SBD reduces the Québec tax rate on income eligible for this reduction by 1.4 percentage point from January 1, 2006 to March 23, 2006, by 1.9 percentage point from March 24, 2006 to December 31, 2007, by 3.4 percentage points for calendar year 2008 and lastly by 3.9 percentage points as of calendar year 2009.

Briefly, any business carried on by a corporation is eligible for this deduction, other than certain businesses whose major objective is to earn income from property or to provide services which, in fact, are supplied by the shareholder of such corporation, as part of a relation with his customers which was similar to an employer-employee relation.

However, it is to be noted that large private corporations, like large public corporations, can no longer claim the SBD (gradual loss beginning at paid-up capital of $10 million, with total loss at $15 million).

In the case of a taxation year that straddles the various application dates, the reduction rate a corporation can apply regarding its eligible income is a weighted rate reflecting the number of days of the taxation year included in each of the periods concerned.

This reduced tax rate attempts to introduce a degree of progressivity in tax payable by corporations, by favouring small and medium-size enterprises (SMEs).

☐ REDUCED TAX RATE FOR SAVINGS AND CREDIT UNIONS (1972)

Like any other Canadian-controlled private corporation, a savings and credit union was entitled, before the corporate taxation reform announced on March 31, 1998, to an SBD (the earlier SBD eliminated in 1999, as opposed to the "new" SBD introduced in the April 21, 2005 Budget Speech. Note that the parameters of the earlier SBD differed somewhat from those of the new SBD.), but regarding a greater amount than the first $200 000 of income from an eligible business it carried on, i.e. the amount regarding which the earlier SBD could be claimed. This additional reduction of 3.15 percentage points in the tax rate applied as long as the cumulative earnings of the credit union had not reached an amount equal to the amount of its maximum cumulative reserve.

Briefly, the maximum cumulative reserve of a savings and credit union was equal to 5% of the amounts it owes to its members (including its deposits and the amount of shares held by its members).

The purpose of the measure was to enable a savings and credit union to build up capital under favourable tax conditions, up to 5% of its deposits and its capital.

As part of the corporate taxation reform, it was announced that, while a credit union would no longer be entitled to the earlier SBD because of its repeal, it would continue to be entitled to a deduction equivalent, in value, to those it would have obtained under the rules applicable prior to the reform.

This reduction of the tax rate was eliminated for taxation years ending after June 11, 2003. For a taxation year including June 12, 2003, the amount of the reduction is calculated in proportion to the number of days of such taxation year preceding June 12, 2003.

☐ EXEMPTION OF REGISTERED CHARITIES AND NON-PROFIT ORGANIZATIONS (1972)

Registered charities and non-profit organizations, whether incorporated or not, are exempt from income tax.

This is a preferential measure explained by the nature of the activities carried out by such organizations.

☐ EXEMPTION OF GOVERNMENT ORGANIZATIONS (1972)

Municipalities, public organizations carrying out government functions and corporations reporting to such organizations, provincial government corporations and most federal Crown corporations are exempt from income tax. However, some federal Crown corporations, generally those carrying on significant commercial operations, are taxable.

The purpose of this measure is to avoid collecting tax on activities which, in fact, are government activities. In the particular case of taxable federal Crown corporations, they are subject to tax because of the nature of the activities they carry out and to ensure that they do not enjoy an unfair advantage compared to their taxable competitors.

☐ FIVE-YEAR TAX HOLIDAY FOR NEW CORPORATIONS (1986 AND 1997)

To encourage new business formation and allow for the significant costs of setting up a new business, Québec's tax system provided for a tax exemption on the income of new Canadian-controlled private corporations for the first five years of operation. This exemption applied to the first $200 000 of income from an eligible business carried on by the corporation. However, for a taxation year ending after June 12, 2003, the exemption applied to 75% of the income from an eligible business and was calculated on the first $200 000 of such income.

Briefly, any business carried on by a corporation was eligible, other than a business whose major objective is to earn income from property (an apartment building, for instance) or to provide services which, in fact, are supplied by the shareholder of such corporation, as part of a relation with his customers which is similar to an employer-employee relation. A corporation could be eligible for the tax holiday for a taxation year if its paid-up capital for the preceding taxation year did not exceed $15 million.

A deduction was also allowed to such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[11] Lastly, a new corporation could also receive an exemption from the employer contribution to the Health Services Fund (HSF) attributable to the salaries paid or deemed paid during its initial years of operation.[12]

The tax holiday for new corporations was eliminated in the March 30, 2004 Budget Speech. However, a corporation whose first taxation year began prior to March 30, 2004 can continue to enjoy the tax holiday as previously stipulated.

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[11] This deduction is described separately in the "Tax on capital" section.

[12] This deduction is described separately in the "Health Services Fund" section.

☐ TAX HOLIDAY FOR INTERNATIONAL FINANCIAL CENTRES (1986, 1998 AND 2004)

An international financial centre (IFC) is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions (QIFTs).

Briefly, a corporation or the members of a partnership, as the case may be, which operates an IFC in Montréal, as well as certain of their employees, can claim various tax benefits, namely:

- a partial income tax exemption;
- a partial capital tax exemption;
- a partial exemption from the employer contribution to the HSF;
- a total or partial income tax exemption, for five years, for foreign specialists employed by an IFC;
- a partial income tax exemption for certain Canadian employees of an IFC.

Many changes were made to the rules governing IFCs on March 31, 1998. In addition to stipulating the consolidation, within a separate law, of the tax and prescriptive provisions relating to IFCs, these changes were also designed to broaden the range of eligible activities and ease certain requirements.

The value of all the tax benefits relating to the IFC regime was reduced in the June 12, 2003 Budget Speech by 25% regarding both the benefits granted to the IFC operator and those granted to employees. As at December 31, 2004, this 25% reduction of the tax benefits otherwise determined is still in effect.

Major changes were also made to the IFC regime in the March 30, 2004 Budget Speech. Under these changes, the branch accounting method used until then to determine the IFC portion of an operator's business was replaced, for a fiscal year starting after March 30, 2004, by a formula based on the relative size of revenues and salaries attributable to the QIFTs of the operator compared the latter's overall revenues and salaries.

In addition, one of the other important changes is the elimination of the partial exemption from the compensatory tax enjoyed by certain IFC operators, as well as the introduction of significant restrictions on the QIFTs carried out in a non-arm's length context.

Major changes were also made regarding the tax benefits available to IFC employees. Eligibility for the income tax deduction Canadian employees could claim was restricted to employees more than 75% of whose duties with the IFC are devoted to the execution of QIFTs. In addition, a cap was imposed to limit the amount of this deduction to $50 000 annually. Regarding the income tax deduction that foreign specialists can claim, changes were made concerning employment contracts concluded after March 30, 2004. Briefly, the deduction rate applicable on these contracts corresponds to 100% of the foreign specialist's employment income for the first two years, 75% the third year, 50% the fourth year and 37.5% the fifth year.

The purpose of the tax benefits granted to IFCs is to encourage companies in the financial sector to set up an IFC in Montréal in order to carry out certain transactions of an international nature, such as portfolio management for persons who are not residents of Canada, foreign securities management or exchange operations.

☐ TAX HOLIDAY FOR CORPORATIONS CARRYING OUT AN INNOVATIVE PROJECT IN THE FIELD OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGIES IN CERTAIN DESIGNATED SITES (1997)

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the concept was extended to these designated sites.

Briefly, this measure was intended to support companies that promise to undertake, within these two types of designated sites, innovative projects in the field of new information and communications technologies.

Corporations that carried out an innovative project in one of these two types of designated sites could claim the following tax benefits:

- an exemption from income tax;
- an exemption from the tax on capital;
- an exemption from the employer contribution to the HSF;
- a refundable tax credit for wages paid to eligible employees;
- a refundable tax credit for the acquisition or lease of eligible specialized equipment.

Concerning income tax more specifically, a corporation that carried out an innovative project in one of these two types of designated sites could claim a full income tax exemption for its first five years of operation.

These fiscal measures regarding corporations that carry out an innovative project in the field of new information and communications technologies were eliminated in the June 12, 2003 Budget Speech. The rights of taxpayers who already benefited from such measures or were in the process of benefiting from them were protected. These taxpayers can continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules concerning acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to receive these tax benefits.

☐ TAX HOLIDAY FOR CORPORATIONS CARRYING OUT AN INNOVATIVE PROJECT IN A BIOTECHNOLOGY DEVELOPMENT CENTRE (2001)

The concept of designated sites for carrying out innovative projects, initially introduced in the March 25, 1997 Budget Speech with the creation of CDTIs, was extended to the biotechnology sector in the March 29, 2001 Budget Speech. The first biotechnology development centre was designated in Laval and others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

This measure was designed to support corporations that undertake to carry out an innovative project in a biotechnology development centre.

Corporations that carried out an innovative project in a biotechnology development centre could receive the same tax benefits as those that carried out an innovative project in the field of new information and communications technologies in certain designated sites, i.e. the following tax benefits:

- an exemption from income tax;
- an exemption from the tax on capital;
- an exemption from the employer contribution to the HSF;
- a refundable tax credit for salaries paid to eligible employees;
- a refundable tax credit for the acquisition or lease of eligible specialized equipment.

In addition, a corporation that carried out an innovative project in a biotechnology development centre could also claim a refundable tax credit regarding the amount of eligible rental expenses relating to the short-term rental, during its five-year tax holiday, of eligible specialized facilities.

Concerning income tax more specifically, a corporation that carried out an innovative project in a biotechnology development centre could claim an income tax exemption for its first five years of operation.

The level of assistance of the tax holiday regarding corporations that carry out an innovative project in a biotechnology development centre was reduced from a full tax holiday (100%) to a partial one (75%) in the June 12, 2003 Budget Speech. Subsequently, the concept of innovative project and the attendant tax holiday were eliminated in the March 30, 2004 Budget Speech.

However, the rights of taxpayers who already benefited from the tax holiday relative to the carrying out of an innovative project in a biotechnology development centre, or were in process of benefiting from them, were protected, under the changes announced on June 12, 2003 and those announced on March 30, 2004. Accordingly, these taxpayers can continue to obtain the tax assistance initially stipulated regarding their situation and for the period initially stipulated, subject to certain integrity rules concerning acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

☐ TAX EXEMPTION REGARDING INCOME EARNED FROM THE ADMINISTRATION AND MANAGEMENT OF NEW INVESTMENT FUNDS (1998)

Tax benefits were introduced on March 31, 1998 to support the development of new investment funds administered and managed in Québec. Tax assistance was granted to eligible corporations that created such funds after December 31, 1997 and before April 1, 2001.

This tax assistance consisted of a refundable tax credit for eligible start-up expenses incurred in relation to the creation of eligible investment funds,[13] as well as a tax exemption regarding the income earned from the administration and management of such funds.

More specifically, this income tax exemption was granted to an eligible corporation, for a period of five years, regarding the revenue it earned from the administration and management, in Québec, of eligible investment funds.

By stimulating the creation of investment funds in Québec, this measure was designed to develop Québec expertise in portfolio management and the development of financial products.

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[13] This tax expenditure is described separately in the "Tax credits" sub-section.

❑ TAX HOLIDAY CONCERNING THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (1999)

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

The tax benefits relating to the Mirabel Zone were eliminated in the June 12, 2003 Budget Speech. However, transition rules enable certain corporations to continue to receive these tax benefits.

In particular, a corporation that, on June 12, 2003, carried on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, is of particular interest for Québec's economy, continues to receive a tax exemption on the income earned from such business, generally until December 31, 2013.

In addition, such corporation can generally claim various tax benefits, namely:

- an exemption from the tax on capital in relation to the portion of the corporation's paid-up capital that is reasonably attributable to the operation of such eligible business;
- an exemption from the employer contribution to the Health Services Fund (HSF) regarding wages paid to certain eligible employees;
- a refundable tax credit on the wages of eligible employees;
- a refundable tax credit regarding an eligible customs brokerage contract;
- a refundable tax credit in respect of the acquisition or lease of eligible specialized equipment;
- a refundable tax credit for the construction of strategic buildings.

The administrative responsibilities that were assumed by the Minister of Finance concerning the tax benefits relating to the Mirabel Zone were transferred to Investissement Québec on March 31, 2004.

These tax benefits are described in greater detail under specific headings in this regard.

☐ TAX HOLIDAY FOR ELIGIBLE CORPORATIONS UNDER THE SUPPORT FOR THE DEVELOPMENT OF STOCK EXCHANGES AND SECURITIES CLEARING-HOUSE CORPORATIONS IN MONTRÉAL (2000)

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the territory of the agglomeration of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, exemption from income tax, an exemption from the tax on capital[14] and an exemption from the employer contribution to the Health Services Fund[15] (HSF) in relation to the securities exchange or securities clearing corporation business they carry on within the territory of the city of Montréal.

Concerning income tax more specifically, these support measures consist of a deduction, in the calculation of the taxable income of an eligible corporation, determined on the basis of the income from operations it carries out as a securities exchange or securities clearing corporation, for any taxation year or portion of a taxation year starting on October 1, 2000 and ending December 31, 2010.

The rate of this deduction was reduced in the June 12, 2003 Budget Speech from 100% of the income from carrying out eligible eligible activities to 75% of such income.

These measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

☐ TAX HOLIDAY FOR MAJOR INVESTMENT PROJECTS (2000)

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

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[14] This deduction is described separately in the "Tax on capital" section.

[15] This deduction is described separately in the "Health Services Fund" section.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from the employer contribution to the HSF relating to the business carried on following the completion of the major investment project.

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning income tax more specifically, a corporation can benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax consisting of a deduction in the calculation of taxable income. This deduction is based on the income the corporation earns from the separate business, i.e. the income earned from the activity carried on following the completion by the corporation of the major investment project.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

A moratorium was introduced in the June 12, 2003 Budget Speech this tax holiday in order to review its utility and effectiveness.

More specifically, this moratorium applies in relation to investment projects for which a written application to obtain this tax holiday was not submitted to the ministère des Finances prior to June 12, 2003.

Furthermore, the rights of taxpayers that already enjoyed this tax holiday regarding a major investment project, or were in the process of benefiting from it, were protected regarding their major investment project.

❑ TEN-YEAR TAX HOLIDAY FOR MANUFACTURING SMEs IN REMOTE RESOURCE REGIONS (2001)

On March 29, 2001, a ten-year tax holiday for small and medium-sized manufacturing enterprises (SMEs) in remote resource regions was introduced to stimulate economic development in these regions, where the employment situation is the most difficult.

In general, a corporation all of whose activities consist mainly in carrying on a manufacturing or processing business in one of Québec's remote resource regions can benefit, from March 30, 2001 until December 31, 2010, from a tax holiday in relation to income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF). The tax bases covered by this tax holiday are not capped.

In this regard, a corporation's activities as a whole consist mainly in carrying on a manufacturing or processing business if over 50% of its payroll or more than 50% of its assets are attributable to manufacturing or processing.

The administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine, the Antoine-Labelle, Vallée-de-la-Gatineau, Pontiac and Mékinac RCMs and the agglomeration of La Tuque are the remote resource regions of Québec.

A corporation receives the full tax holiday for a taxation year if its paid-up capital applicable for such year, calculated on a consolidated basis, does not exceed $20 million. This tax holiday consists of a deduction in calculating taxable income. However, regarding a taxation year ending after June 12, 2003, the exemption applies to 75% of income from an eligible business.

Furthermore, if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $20 million but less than $30 million, the income from an eligible business regarding which a deduction may be claimed must be reduced linearly.

A deduction is also allowed such a corporation in calculating its paid-up capital for the purposes of the tax on capital.[16]

Lastly, such a corporation may also receive an exemption from the employer contribution to the HSF attributable to wages paid or deemed paid.[17]

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[16] This deduction is described separately in the "Tax on capital" section.

[17] This deduction is described separately in the "Health Services Fund" section.

❑ EXEMPTION OF LABOUR FUNDS (1989 FSTQ AND 1995 FONDACTION TO 2003)

The corporation governed by the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* and the corporation governed by the *Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (Fondaction), do not have to pay income tax, for taxation years ending before June 12, 2003 since they can claim a deduction equivalent to their taxable income.

For the taxation year including June 12, 2003, only a portion of taxable income of the Fonds de solidarité des travailleurs du Québec and of Fondaction can give rise to this deduction, so that these investment corporations enjoyed a partial income tax exemption.

For a taxation year beginning after June 12, 2003, the Fonds de solidarité des travailleurs du Québec and Fondaction are no longer authorized to claim such a deduction. All of their taxable income is therefore included in the calculation of income tax.

The purpose of this measure was to increase the funds available to the Fonds de solidarité des travailleurs du Québec and Fondaction to encourage job creation and investment in small and medium-size Québec companies.

❑ EXEMPTION OF CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS (2001 TO 2003)

Capital régional et coopératif Desjardins is a joint stock company with the mission of marshalling venture capital for the resource regions of Québec and cooperatives. It is authorized to collect, up to February 28, 2011, up to $1.325 billion of capital enjoying a tax benefit.

For taxation years ended before June 12, 2003, Capital régional et coopératif Desjardins had no income tax to pay because it was allowed a deduction equivalent to its taxable income.

For the taxation year including June 12, 2003, only a portion of taxable income of Capital régional et coopératif Desjardins gives rise to this deduction, so that this investment corporation enjoyed a partial income tax exemption.

For a taxation year beginning after June 12, 2003, Capital régional et coopératif Desjardins is no longer authorized to claim such a deduction. All of its taxable income is therefore included in the calculation of income tax.

The purpose of this measure was to increase the funds available to Capital régional et coopératif Desjardins to invest in resource regions and foster the capitalization of cooperatives.

❑ NON-TAXATION OF TAX CREDITS

Some tax credits stipulated in Québec's tax legislation are not taxed by Québec even though they constitute a form of assistance received from the government and such assistance is generally taxable. In particular, this applies to tax credits for scientific research and experimental development, the tax credit for design, the tax credit for on-the-job training periods and the tax credit for the construction or conversion of ships.

Québec does not tax Québec tax credits to avoid diminishing the assistance otherwise granted to businesses through these tax credits.

As for the tax credits stipulated in federal legislation, they are generally taxable.

2.1.2 Deductions

❑ DEDUCTION RELATING TO RESOURCES (1975)

The tax legislation provides for a deduction relating to resources which is equal to 25% of the profits the taxpayer earns from resources in the year, before deducting exploration expenses, development expenses and interest expenses.

The deduction relating to resources makes allowance for the non-deductibility of royalties paid to the Crown, mining duties and other charges applicable to oil, gas or mining production. Accordingly, it is designed to ensure that developers of oil, gas or mining resources do not bear an excessive tax burden.

This flat deduction of 25% will be eliminated as of January 1, 2007. Accordingly, as of the same date, the restriction relating to the non-deductibility of royalties paid to the Crown, mining duties and other charges applicable to oil, gas or mining production will be lifted.

❑ DEDUCTIBILITY OF ROYALTIES PAID TO INDIAN BANDS (1975)

Royalties and rent paid to Indian bands regarding oil and gas leases on Indian reserves are considered to be amounts paid in trust to the Crown in right of Canada for the use and benefit of the Indian band in question. Unlike public charges which are not deductible, amounts paid to an Indian band are generally deductible for income tax purposes.

In addition, the earnings derived from resources, after deducting government charges, entitle the taxpayer to the deduction relating to resources.

As indicated above, the restriction relating to the non-deductibility of royalties paid to the Crown, mining duties and other charges applicable to oil, gas or mining production will be lifted as of January 1, 2007, i.e. the same date as the elimination of the 25% deduction relating to resources. Accordingly, the preferred treatment currently allowed for royalties and rent paid to Indian bands will cease.

☐ DEDUCTIBILITY OF DONATIONS (1972)

Corporations can claim a deduction, in calculating their taxable income, regarding the donations they make. This deduction encompasses many constituent elements that relate either to the eligibility of the donation or to the calculation of the deduction.

In general, a donation is eligible as a deduction in calculating a corporation's taxable income, where it is made to a recognized donee. In addition to donations made to registered charities, to the State, to municipalities or to municipal or public bodies that perform a function of government, the following donations are also eligible as a deduction in calculating taxable income:

- donations made to the United Nations or to one of its agencies;
- donations made to certain foreign universities or charities;
- donations made to certain housing corporations;
- donations made after December 18, 2002 to recognized political education organizations;
- donations to registered Canadian amateur sports associations and those made after March 30, 2004 to registered Québec amateur sports associations;
- donations made after March 30, 2004 to the Agence de la Francophonie or to one of its subsidiary bodies;
- donations made after March 23, 2006 to registered museum institutions;
- donations made prior to June 30, 2006 to recognized arts organizations;
- donations made after June 29, 2006 to registered cultural or communications organizations.

In some cases, a donation is eligible as a deduction in calculating a corporation's taxable income only if it covers specified property and is made to a recognized entity that in general has a mission compatible with the property in question.

Donations included in this category of eligible donations are as follows:

- donations involving cultural property or similar property, including donations involving the bare property of such property if they are made after July 11, 2002 as part of a recognized gift with reserve of usufruct or use, and made to certain public institutions or administrations, certain museum institutions or certain archival centres;
- donations involving land with undeniable ecological value, including donations involving a servitude affecting such land, and made, among others, to certain registered charities with an environmental mission in Québec, to the State or to Québec municipalities;
- donations involving a musical instrument and made, after March 23, 2006, to a recognized educational institution.

Moreover, the deduction for donations is calculated including the total of the amounts each of which represents the eligible amount of a donation made by a corporation. If the donation is made prior to December 21, 2002, the eligible amount of the donation generally corresponds to the fair market value of the donated property. If the donation is made after December 20, 2002, the eligible amount of the donation corresponds to the excess of the fair market value (real or, if applicable, deemed) of the property donated over the amount of the advantage, where applicable, in respect of the donation or gift.

However, special rules apply for a donation of a work of art made to a Québec museum Institution as well as to the donation of the bare property of a work of art made to such an institution as part of a recognized gift with reserve of usufruct or use. These rules are as follows:

- if the donation involves a work of art and is made prior to December 21, 2002 or if it involves the bare property of such work of art and is made between July 11 and December 21, 2002, the eligible amount of the donation is equal to the total of the amount representing the fair market value of the donated property (or the amount that is deemed as such) and 25% of such amount;
- if the donation involves a work of art or the bare property of such work of art and is made after December 20, 2002, the eligible amount of the donation is equal to the total of the excess of the fair market value of the donated property (or the amount deemed as such) over the amount of the advantage, where applicable, in respect of such donation – other than an advantage consisting of the usufruct if the donation involves the bare property of a work of art – and 25% of such excess.

As a general rule, the total of the amounts each of which represents the eligible amount of a donation is, for the purposes of calculating the deduction for donations, limited to a certain level of the corporation's income.

This limit is set at 75% of the corporation's income for the year in which the deduction is claimed. However, it can be raised to 100% of the corporation's income where, in particular, the object of the donation is capital property (for taxation years beginning before January 1, 2004, the capital property had to be linked to the donee's mission for the limit of 75% of the corporation's income to be raised to 100% of such income).

Exceptionally, the rule designed to restrict, generally at 75% of the corporation's income, the total of the eligible amounts of the donations used to calculate the deduction does not apply to certain types of donations. The donations covered by this exception are donations of cultural property or similar property, donations of property with undeniable ecological value, gifts to the State prior to April 1, 1998 as well as donations of musical instruments made after March 23, 2006 to a recognized educational institution.

Moreover, any part of the amount of donations made in a year that cannot be taken into account in calculating the deduction may be carried forward for a number of years, subject to the application, for each year of the carry-forward, if any, of the rule designed to restrict, generally at 75% of the corporation's income, the total of the eligible amounts of the donations.

The carry-forward period of a corporation's unused donations depends on the year during which the donation was made. Accordingly, any unused portion of a donation made in a taxation year ending before March 24, 2006 can be carried forward during one of the subsequent five taxation years, while for donations made in a taxation year ending after March 23, 2006, any unused portion can be carried forward during one of the subsequent twenty taxation years.

These measures are intended chiefly to promote the funding of organizations dedicated to charity, amateur sport, culture, communications or to political education. They are also intended to stimulate donations of works of art, musical instruments and property with cultural or ecological value.

☐ DEDUCTIBILITY OF COUNTERVAILING AND ANTIDUMPING DUTIES (1998)

In accordance with the rules of the World Trade Organization, countervailing and antidumping duties can be imposed on a country to offset losses caused by imports of subsidized or under-valued goods. Consequently, taxpayers may have to pay such duties to export their products. In this context, Québec's tax legislation stipulates that cash payments made to pay such duties are deductible from income in the year in which they are paid, even if they can be refunded, in whole or in part, in a subsequent year was announced. The refunds or other amounts subsequently received, such as interest, are included in income in the year they are received.

The tax expenditure corresponds to the relief allowed to the taxpayers by authorizing them to deduct such contingent expenses from their earnings when they are paid, and not when the exact amount of the duties, if any, is determined. The tax expenditure is positive or negative depending on the amount of the countervailing duties paid or recovered by taxpayers in a year.

☐ DEDUCTIBILITY OF ALLOWANCES FOR EARTHQUAKES (1998)

In general, the income of an insurance company is calculated like that of any other company. However, special rules sometimes apply, for instance concerning amounts that may be deducted as allowances in relation to insurance.

Accordingly, allowances constituted in accordance with the guideline on sound practices applicable to commitments relating to earthquakes issued by the Autorité des marchés financiers are allowable as a deduction in calculating the income of an insurance company.

This measure is designed to support insurance companies that must make provision to guarantee that they have sufficient financial resources to cover losses caused by earthquakes when they occur.

2.1.3 Tax credits

☐ REFUNDABLE TAX CREDITS FOR SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (R&D) (1983)

Various refundable tax credits are provided for R&D. In general, regarding R&D expenditures incurred after April 21, 2005, for R&D work done after that day, these tax credits are:

- 17.5% on the salaries of researchers (37.5% of the first $2 000 000 of annual salaries in the case of corporations with assets of less than $25 million; however, a linear reduction in the rate of the 37.5% tax credit applies for corporations with assets between $25 and $50 million);
- 37.5% of the eligible expenditure, for a university research contract, or a contract concluded with an eligible public research centre or with a research consortium;
- 37.5% for a pre-competitive research project;
- 37.5% of dues or contributions paid to a research consortium.

However, the maximum rate is 35% regarding R&D expenditures incurred after June 12, 2003 for R&D work done after that day and incurred no later than April 21, 2005, for R&D work done no later than that day.

Previously, the rate of each of these tax credits was 12.5% higher. Accordingly, the 17.5% and 35% rates were 20% and 40% respectively, regarding R&D expenditures incurred prior to June 13, 2003, regarding R&D work done before then. In the case of a research contract concluded prior to June 13, 2003, the 20% and 40% rates apply regarding R&D expenditures incurred and R&D work done before that date, at that date or after that date.

The purpose of these measures is to stimulate R&D in Québec, in terms of both human capital and more intense cooperation between businesses, universities and research centres.

☐ SUPER-DEDUCTIONS FOR R&D (1999)

For taxation years of corporations beginning after June 30, 1999 and before March 1, 2000, corporations otherwise eligible for the refundable tax credits for R&D could elect to forego them in favour of super-deductions in calculating their income. In general, the rates of the super-deductions were 460% for corporations with assets of less than $25 million. This rate declined linearly for corporations with assets between $25 and $50 million, reaching 230% for those with assets of $50 million or more. Rates were also 460% for university research contracts (or contracts with an eligible public research centre or a research consortium), pre-competitive research, a catalyst project or an environmental technology innovation project and contributions or dues payable to a research consortium.

The super-deduction election could apply to all or part of the amount used as the basis for calculating a refundable tax credit and irrevocably replaced the entitlement to any of the refundable tax credits to which the corporation would have been entitled.

This measure was designed to optimize the tax benefits relating to R&D activities carried out in Québec.

However, in its February 28, 2000 budget, the federal government announced amendments to the federal tax legislation to tax the value of a benefit arising from a provincial super-deduction for R&D. Accordingly, there was no longer any purpose served by the Québec super-deductions for R&D. Consequently, super-deductions regarding R&D were withdrawn in relation to taxation years of corporations beginning after February 29, 2000.

☐ REFUNDABLE TAX CREDIT BASED ON THE INCREASE IN R&D EXPENDITURES (1999)

A corporation otherwise entitled to the refundable tax credit on R&D wages at 40% could, for taxation years beginning after June 30, 1999 and before June 13, 2003, claim a refundable tax credit based on the increase in all R&D expenditures used as a basis for calculating Québec refundable tax credits for R&D, made by the corporation in a taxation year, compared with the average of all such expenditures made by the corporation during its three preceding taxation years.

The rate of this tax credit was 15%. In addition, a corporation could elect, for a taxation year beginning before March 1, 2000, to claim an additional super-deduction at a rate of 190%, in place of this tax credit.

The purpose of this measure was to provide more tax assistance to small and medium-size enterprises that allocated more resources to increasing their R&D activities.

☐ REFUNDABLE TAX CREDIT FOR TECHNOLOGY ADAPTATION SERVICES (1999)

Since 1999, a refundable tax credit with two components has existed to further support businesses in gathering and processing strategic information and in their research cooperation and innovation initiatives. The first component of this tax credit concerns competitive information, i.e. the results of intelligence activities carried out by a competitive intelligence centre, while the second concerns liaison and transfer services.

This tax credit applies to certain expenditures incurred with an eligible business competitive intelligence centre, an eligible liaison and transfer centre or an eligible technology transfer centre, as the case may be.

These expenditures include 80% of fees relating to intelligence or liaison and transfer services provided by such centres and the amount of fees for participating in training and information activities relating to services these centres offer.

The rate of this tax credit is currently 50%. This rate was 40% regarding expenditures incurred after March 9, 1999 and before June 13, 2003, and 30% regarding expenditures incurred after June 12, 2003 and before March 31, 2004.

The competitive information component was eliminated in the March 30, 2004 Budget Speech. In the case of a contract concluded no later than that date, only expenditures incurred in relation to products or services offered before April 1, 2005 could give rise to this tax credit at a rate of 30%.

☐ REFUNDABLE TAX CREDIT FOR DESIGN (1994)

The refundable tax credit for design has two components and applies regarding certain expenditures that an eligible corporation incurs in relation to eligible design activities. The tax credit was substantially changed in the April 21, 2005 Budget Speech, among other things, to broaden its scope.

The first component concerns fashion design (design and pattern drawing) or industrial design activities carried out under an external consulting contract. The second component covers salary expenditures incurred by a corporation regarding designers and pattern makers it employs in the fashion sector, and designers it employs in the industrial sector.

The rate of the tax credit, regarding these two components, is 15%, but it may be increased to as much as 30% in the case of a corporation that qualifies as an SME. However, this 30% rate reduces linearly for corporations with assets between $25 million and $50 million. Prior to June 12, 2003 the 30% and 15% rates were 40% and 20% respectively.

Furthermore, to benefit from this tax credit, eligibility certificates must be obtained from the Minister of Economic Development, Innovation and Export Trade regarding eligible corporations, designers and recognized pattern-makers.

This tax credit is designed to support and accelerate the innovation efforts of a company that has decided to pursue the design function to compete more effectively.

☐ REFUNDABLE TAX CREDIT FOR ON-THE-JOB TRAINING PERIODS (1994)

A business that accepts a student or an apprentice for an eligible on-the-job training period is entitled to a refundable tax credit of 30% in the case of a corporation and 15% in the case of unincorporated businesses (40% and 20% regarding an on-the-job training period that began before June 13, 2003), regardless of the size of the business. The training expenditures eligible for this tax credit consist of the wages the business pays to the interns or apprentices it accepts and the wages paid to its employees who supervise the training period.

This tax credit is limited to $187.50 per week per intern where the latter is registered in certain specific programs including the apprenticeship scheme, and to $150 per week per apprentice in other cases. However, regarding a training period that begins after December 31, 2006, these maximum amounts are increased to $225 and $180 respectively.

Concerning an internship that began before June 13, 2003, the tax credit is limited to $250 per week per intern where the latter is registered in certain specific programs including the apprenticeship scheme, and to $200 in other cases.

Regarding a training period carried out in a remote resource region that began after March 11, 2003 and before June 13, 2003, or that began after March 30, 2004 and before January 1, 2007, the limit on the tax credit is $375 and $300 respectively.

In addition, the number of hours allocated to support work by a supervisor cannot exceed 20 hours per week per intern when the latter is registered in certain specific programs including the apprenticeship scheme and ten hours per week per intern in other cases.

The tax credit for on-the-job training periods is designed to encourage companies to accept interns and seeks to promote the improvement of professional qualifications for young people.

❑ REFUNDABLE TAX CREDIT FOR QUÉBEC FILM AND TELEVISION PRODUCTION (1991)

The refundable tax credit for Québec film and television production covers the labour expenditures incurred by a corporation in relation to the production of a "Québec film", which concept also covers certain variety and magazine shows. As of January 1, 2000, closed-captioning for the hearing impaired is compulsory for a Québec film intended for broadcast in Québec.

This tax credit generally corresponds to 29.1667% of eligible labour expenditures incurred to produce the film. However, the labour expenditures giving rise to this tax credit may not exceed 50% of the production expenses of the film, so that the tax assistance may not exceed 14.58335% of such expenses.

However, under this tax credit, a tax credit rate of 39.375% applies regarding labour expenditures relating to the production of certain French-language feature films and certain documentaries, with the result that the tax assistance can reach 19.6875% of the production expenses of such films.

In addition, the tax credit rate for eligible labour expenditures incurred in the course of production of a giant screen film has also been raised to 39.375%. However, the labour expenditures eligible for this increase cannot exceed 50% of the production expenses of a giant screen film, so that the amount of tax assistance can reach a maximum of 19.6875% of such expenses.

Furthermore, this tax credit can never exceed an amount of $2 187 500 per film or per series.

Between September 1, 2001 and June 12, 2003, the rate of this tax credit was generally 33 ⅓% of the eligible labour expenditures incurred to produce a film. However, a tax credit rate of 45% applied regarding labour expenditures relating to the production of certain French-language feature films and certain documentaries. Lastly, a tax credit rate of 45% also applied regarding labour expenditures incurred, after December 31, 2001, in relation to giant screen films. Moreover, eligible labour expenditures could not exceed 50% of the production expenses of the film so that the tax assistance could reach 16 ⅔% and 22.5%, as the case may be, of production expenses. However, the amount of this tax credit was limited to $2.5 million per film or per series.

Before September 1, 2001, the labour expenditure eligible for this tax credit was capped at 45% of production expenses so that the level of tax assistance could reach a maximum of 15% and 20.25% of such expenses, as the case may be. In addition, the amount of the tax credit was limited to $2.5 million per film or per series.

In June 1998, eligibility for this tax credit and the tax credit for film production services was extended to broadcasters and their production subsidiaries, for a period of five years. This period ended March 31, 2003. Since then, a corporation that is not at arm's length with a broadcaster can still receive the tax credits for film and television production only for productions it carries out for a corporation other than the broadcaster with which it is not at arm's length, provided it maintains a minimum annual volume of independent production.

The tax credit for Québec film and television production is designed to support the production of films and television shows by Québec companies.

— Increase in tax assistance for special effects and computer animation (1998)

Labour expenditures relating to the execution of special effects or computer animation, other than such expenditures incurred in the course of production of certain French-language feature films, certain documentaries and giant screen films, give rise to an increase of 10.2083% in the rate of the tax credit for Québec film and television production applicable to eligible labour expenditures.

Accordingly, assuming that the labour expenditures eligible for the increased rate for special effects and computer animation account for 50% of production expenses, the effective rate of the credit for Québec film and television production rises from 14.58335% to 24.28125% of production expenses.

Before June 12, 2003, labour expenditures eligible for this higher rate gave rise to an increase of 11 ⅔% of the rate of the tax credit for Québec film and television production applicable.

— Increase in tax assistance for regional film and television productions (1999)

Specific assistance is granted to producers established outside the Montréal region when the film is made in the regions. This increase consists of an increase of 9.1875% in the rate of the tax credit for Québec film and television production regarding labour expenditures attributable to services provided in Québec, outside the Montréal region, in the course of production of a French-language feature film, a documentary or a giant screen film. For other production categories, the increase can reach 19.3958% of the rate of the tax credit regarding labour expenditures attributable to services supplied in the regions. Accordingly, in the case of a regional production, the tax assistance can reach 24.28125% of the film's production expenses.

Before June 12, 2003, the rate of this increase was 10 ½% of the rate of the tax credit for Québec film and television production regarding labour expenditures attributable to services provided in the regions in the course of production of a French-language feature film, a documentary or a giant screen film. For other production categories, the increase was 22.17% of the rate of the tax credit regarding labour expenditures attributable to services in the regions.

☐ REFUNDABLE TAX CREDIT FOR FILM PRODUCTION SERVICES (1998)

The refundable tax credit for film production services covers Québec labour expenditures attributable to the various stages of production or execution of a foreign production or a production which does not satisfy Québec content criteria giving rise to the refundable tax credit for Québec film or television production.

The amount of the tax credit is equivalent to 20% of eligible labour expenditures. Accordingly, assuming eligible labour expenditures account for 50% of production costs, the effective rate of the tax credit is 10% of the cost of the production.

Before December 31, 2004, the tax credit for film production services was equal to 11% of the amount of eligible labour expenditures.

In the same way and with the same restrictions and obligations as regarding the refundable tax credit for Québec film and television production, private broadcasters were eligible for this tax credit during a period of five years. This period ended March 31, 2003.

— Increase in tax assistance for special effects and computer animation (1998)

In the same way as in the case of the refundable tax credit for Québec film and television production, labour expenditures eligible for the tax credit for film and television production services and relating to the execution of special effects or computer animation for use in an eligible film or television production give rise to an increase in the rate of the applicable tax credit. This increase corresponds to an additional rate of 20% of eligible labour expenditures. Accordingly, continuing with the assumption that 50% of production costs represent labour expenditures eligible for the increase, the effective rate of the tax credit would rise from 10% to 20% of production costs in some cases, and from 0% to 10% of production costs in the case of small budget productions that fail to satisfy the minimum cost rules to be eligible for this tax credit.

The refundable tax credit for film production services is designed to stimulate job creation in Québec by encouraging foreign producers to film their productions in Québec.

☐ REFUNDABLE TAX CREDIT FOR DUBBING (1997)

The refundable tax credit for dubbing covers labour expenditures relating to certain services supplied in Québec and inherent in the process of dubbing film or television productions. In general, productions eligible for this tax credit are the same as those eligible for the refundable tax credit for Québec film and television production, without the Québec content requirements.

This tax credit is equal to 29.1667% of the amount of the eligible labour expenditures, which are limited, however, to 40.5% of the consideration paid for the execution of the dubbing contract, excluding the GST and the QST.

Before June 12, 2003, the tax credit for dubbing was equal to 33 ⅓% of the amount of eligible labour expenditures.

The purpose of this measure is to support dubbing activities carried out in Québec and to enable companies in this sector to expand their market.

☐ REFUNDABLE TAX CREDIT FOR SOUND RECORDINGS PRODUCTION (1999)

The refundable tax credit for sound recordings production covers labour expenditures attributable to services supplied in Québec for the production of eligible sound recordings, eligible digital audio-visual recordings and eligible clips. In general, sound recordings, digital audio-visual recordings and clips eligible for this tax credit have significant Québec content.

Initially, the tax credit for the production of sound recordings covered such recordings exclusively. However, since March 23, 2006, the production of a digital audio-visual recording and that of a clip made in addition to a sound recording or a digital audio-visual recording are also covered by this tax credit.

This tax credit is equal to 29.1667% of the amount of eligible labour expenditures, which are limited, however, to 45% of the eligible production expenses of the sound recording, digital audio-visual recording or clip. Tax assistance can accordingly reach 13.125% of the production expenses of the sound recording, digital audio-visual recording or clip. In addition, the tax credit for an eligible sound recording or an eligible digital audio-visual recording may never exceed $43 750, and the tax credit for and eligible clip may never exceed $21 875.

Before June 12, 2003, the tax credit for sound recordings production was equal to 33 ⅓% of the amount of eligible labour expenditures. In addition, the tax credit, regarding an eligible sound recording, could not exceed $50 000.

The purpose of this tax credit is to encourage consolidation of the Québec recording industry, reduce production costs assumed by companies and sustain job creation.

☐ REFUNDABLE TAX CREDIT FOR THE PRODUCTION OF SHOWS (1999)

The refundable tax credit for the production of shows covers labour expenditures attributable to services supplied for the production of eligible shows. In general, shows eligible for this tax credit are those with significant Québec content.

Initially, the tax credit for the production of shows essentially covered musicals. However, since July 5, 2001, it also covers the production of drama, comedy, mime and magic shows.

This tax credit is equal to 29.1667% of the amount of the eligible labour expenditures, which are limited, however, to 45% of the eligible production expenses of the show. Tax assistance can accordingly reach 13.125% of the production expenses of the show. In addition, the tax credit, for an eligible show may in no event exceed $750 000.

Prior to June 29, 2006, the tax credit, regarding an eligible show, could not exceed $262 500.

Moreover, before June 12, 2003, the tax credit for the production of shows was equal to 33 ⅓% of the amount of eligible labour expenditures. In addition, the tax credit, regarding an eligible show, could not exceed $300 000.

This tax credit is designed to encourage consolidation in the Québec show business industry, enable the production of shows with larger budgets and support job creation.

☐ REFUNDABLE TAX CREDIT FOR ELIGIBLE DIGITAL SHOWS (2000)

This refundable tax credit for eligible digital shows had two components and enabled an eligible corporation that produces an eligible digital show in Québec to receive, for a taxation year, a refundable tax credit corresponding, for the first component, to 40% of the eligible labour expenditures it incurs during such year and, for the second component, to 40% of the capital cost or lease expenses of eligible equipment it acquires or leases during such year. However, this tax credit was capped, for an eligible corporation, at $8 million, for the entire period regarding which such eligible expenditures can be incurred.

The tax credit applied for a digital show of an eligible corporation presented in public in Québec for the first time after October 6, 2000 and for which an application for an eligibility certificate was submitted to Investissement Québec by the corporation after such date and before January 1, 2003, in relation to eligible labour expenditures incurred by the corporation before January 1, 2003, to eligible equipment acquired by the corporation before January 1, 2003, and to rent paid by the corporation in relation to the lease of eligible equipment attributable to a rental period prior to January 1, 2003.

An eligible digital show of a corporation meant a digital show produced in Québec regarding which the corporation obtained an annual eligibility certificate from Investissement Québec confirming that all the applicable criteria have been satisfied.

This tax credit was designed to support the production, in Québec, of shows that make use of specific technology, requiring a significant investment, and helping to make Québec know-how better known.

☐ REFUNDABLE TAX CREDIT FOR BOOK PUBLISHING (2000)

The refundable tax credit for book publishing covers the labour expenditures attributable to the preparation and printing of an eligible book or an eligible group of books. This tax credit is equal to 35% of eligible labour expenditures regarding the expenses of preparing an eligible book or eligible group of books, and to 26.25% of eligible labour expenditures regarding the printing expenses for such book or group of books. In addition, the tax credit, for an eligible book or a book that is part of an eligible group of books, may in no event exceed $437 500.

To be eligible, a book, in particular, must be the work of a Québec author, and a certain percentage of the preparation and printing expenses must be paid to Quebecers.

Before June 12, 2003, the tax credit for book publishing was equal to 40% of the amount of eligible labour expenditures regarding the expenses of preparing a book or an eligible group of books and to 30% of eligible labour expenditures regarding the printing expenses for such a book or group of books. In addition, the tax credit, for an eligible book or a book that is part of an eligible group of books, could not exceed $500 000.

This tax credit was implemented to further support book publishing activities, enabling Québec publishers to penetrate foreign markets for Québec productions, produce major publishing projects and develop the translation market.

☐ REFUNDABLE TAX CREDIT FOR THE MAINTENANCE OF A RACEHORSE (2000)

This refundable tax credit was introduced to help the financial recovery of the horse racing industry in Québec. In general, this tax credit covered certain expenditures incurred to raise young horses for racing and is intended for taxpayers who own them.

Eligible expenditures, which had to be incurred after June 29, 2000 but before January 1, 2004, were limited to an annual amount of $12 000 per eligible animal. The rate of the tax credit, applicable to eligible expenditures was 30%, for a maximum tax credit of $3 600 per eligible animal per year.

☐ REFUNDABLE TAX CREDIT FOR SHIPBUILDING OR CONVERSION (1996 AND 1997)

On May 9, 1996, a refundable tax credit was introduced for certain construction expenses incurred by a corporation with an establishment in Québec and which carries on a shipbuilding business in Québec.

The rate of the tax credit is currently 37.5% and applies mainly to wages incurred with individuals employed by the corporation who work directly on the construction of an eligible ship. The Minister of Economic Development, Innovation and Expert Trade must have issued an eligibility certificate for the construction project for such ship. In this regard, the ship must have a gross tonnage of at least fifty tons. Furthermore, currently the amount of the tax credit may not exceed 18.75% of the cost of construction of the ship.

In 1997, another component was added to this tax credit, to admit the first three units of a series of ships built from similar plans and specifications as those of a prototype ship, but at declining rates of tax credit. In addition, a tax credit was also introduced for the conversion of ships, whose rate is currently also 37.5%. Eligible conversion expenditures include the same items as those accepted for the purposes of the tax credit for shipbuilding.

The rates of this tax credit, as well as the limit based on the cost of construction or conversion of the ship, have varied over the years. The rate of the tax credit was 50% before June 13, 2003 while the limit based on the cost of construction or conversion of the ship was 25% before June 13, 2003 and 20% before November 18, 2000.

These measures are designed to encourage shipbuilding and conversion in Québec.

☐ REFUNDABLE TAX CREDIT FOR JOB CREATION IN THE CLOTHING AND FOOTWEAR INDUSTRY (1998)

To stimulate the competitiveness of Québec companies in the clothing and footwear industry and encourage them not to make use of unreported work, a temporary refundable tax credit was introduced for calendar years 1998 to 2001, for the increase in payroll attributable to the production employees of an employer in this industry. The rate of the tax credit, for a calendar year, was 20% of the amount of such increase in payroll. The tax credit was geared both to corporations and individuals.

☐ REFUNDABLE TAX CREDIT RELATING TO THE TRAINING PERIOD OF YOUNG SPECIALIZED EMPLOYEES OF IFCS (1998, 2001 AND 2003)

The refundable tax credit relating to the apprenticeship period of young specialized employees of an IFC is granted to operators of an IFC that employs eligible specialized employees, regarding the salaries paid to such employees for a maximum of three years.

Briefly, an eligible specialized employee is an employee who, at the time an eligibility certificate is first issued in his regard by the Minister of Finance earned a diploma in a discipline relevant to the field of international financial transactions no more than four years previously, and at least 75% of whose duties are related to carrying out qualified international financial transactions. This tax credit applies in relation to employees regarding whom the operator of the IFC holds an eligibility certificate issued by the Minister of Finance before June 12, 2003.

When it was introduced, the amount of this tax credit was equivalent to 40% of the eligible salary paid to an eligible specialized employee. Considering that the amount of the eligible salary was limited to $62 500 on an annual basis, the maximum amount of the tax credit regarding an eligible specialized employee could not exceed, when it was introduced, $25 000 on an annual basis.

Furthermore, on March 29, 2001, the ceiling applicable to eligible salary was raised to $75 000, thus bringing the maximum amount of the tax credit regarding an eligible specialized employee to $30 000. However, in the June 12, 2003 Budget Speech, the rate of the tax credit was reduced from 40% to 30%, thus reducing the maximum amount of the tax credit to $22 500.

This tax credit is designed to promote the development of a new generation of skilled professionals in the field of international transactions, and to compensate part of the costs associated with the period of apprenticeship of young employees.

REFUNDABLE TAX CREDIT FOR IFC CANVASSING EXPENSES (1998)

The refundable tax credit for IFC canvassing expenses covered reasonable expenditures relating to solicitation activities carried out with persons who are not residents of Canada and which enabled the operator of an IFC to bring new qualified international financial transactions to Montréal.

Briefly, the amount of the tax credit, for a taxation year, was equivalent to 50% of the amount of the eligible canvassing expenses incurred by the operator of the IFC during such year and the two preceding years, but prior to January 1, 2002. However, the amount of the tax credit was limited to 25% of the eligible fees the operator of the IFC earned, for the year, from carrying out such new international financial transactions. In addition, the amount of the tax credit, for a taxation year, could not exceed $75 000 on an annual basis.

The refundable tax credit for IFC canvassing expenses was designed to help companies develop new markets and recognize the contribution of solicitation to the development of international financial transactions in Montréal.

REFUNDABLE TAX CREDIT FOR CANVASSING EXPENSES FOR A FOREIGN INVESTMENT FUND (2000)

On March 14, 2000, the refundable tax credit for IFC canvassing expenses was improved with the addition of a second component covering canvassing expenses incurred by the operator of an IFC with a promoter of foreign investment funds, for the purpose of obtaining a foreign investment fund management mandate, so as to bring new qualified international financial transactions to Montréal.

Briefly, the rules applicable to this second component were the same as those applicable to the first. More specifically, the amount of the tax credit, for a taxation year, was equivalent to 50% of the amount of the eligible canvassing expenses incurred by the operator of the IFC during such year and the two preceding years, but prior to January 1, 2002. In addition, the amount of the tax credit was limited to 25% of the eligible fees the operator of the IFC earned, for the year, from carrying out new international financial transactions.

However, special rules limited the overall annual maximum amount that an operator of CFI could obtain under this second component to $750 000, with an annual limit of $150 000 applicable individually regarding each foreign investment fund. In addition, a cumulative cap of $300 000 applicable individually for each foreign investment fund was also stipulated.

The refundable tax credit for canvassing expenses for a foreign investment fund was designed to help companies develop new markets by obtaining foreign investment fund management mandates.

☐ REFUNDABLE TAX CREDIT FOR THE CREATION OF INVESTMENT FUNDS (1998)

Tax benefits were implemented on March 31, 1998 to support the development of new investment funds administered and managed in Québec. The tax benefits were granted to eligible corporations that created such funds after December 31, 1997 and before April 1, 2001.

This tax assistance consisted of a refundable tax credit for eligible start-up expenditures incurred in relation to the creation of eligible investment funds, as well as a tax exemption regarding the income earned from the administration and management of such funds.[18]

More specifically, a corporation could claim a refundable tax credit equal to 50% of the eligible start-up expenses incurred regarding such a fund, up to a maximum of $250 000. Briefly, eligible start-up expenditures covered expenditures incurred by an eligible corporation and attributable to the start-up and establishment of an investment fund, for a period of two years.

However, a change introduced on March 14, 2000 placed a limit of $1 million on the amount of the refundable tax credit for the creation of investment funds that an eligible corporation, as well as eligible corporations with which it was associated, could claim for one taxation year.

By stimulating the creation and management of investment funds in Québec, this measure was designed to develop Québec expertise in portfolio management and development of financial products.

☐ REFUNDABLE TAX CREDIT FOR COMMUNICATIONS BETWEEN CORPORATIONS AND INVESTORS (2000)

A corporation that has a class of its shares listed on an exchange and which wishes to obtain financing by means of a public offering or to disclose the details of a major development that may affect the value of its stock, must be in a position to communicate effectively with financial market professionals and investors. One of the preferred methods used by corporations for such purposes involves organizing a promotional tour or road show affording direct and preferential contact between the corporation and investors.

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[18] This tax expenditure is described in the "Reduced tax rates and exemptions" sub-section.

To encourage Québec corporations to participate more actively in this type of activity, tax assistance was granted to public corporations that, briefly, have a market capitalization of or whose assets were valued at less than $1 billion, and, essentially, more than 50% of salaries paid to its employees were paid to employees in Québec. In general, this tax assistance covered expenditures incurred by an eligible corporation in the course of road shows staged for financial market professionals and investors.

More particularly, such tax assistance consisted of a refundable tax credit and was granted, for a taxation year, to an eligible corporation that, during such year, incurred eligible communications expenditures, such as travel and lodging expenses, expenses for the rental of rooms and equipment, for the preparation of material or advertising, as well as consultants' fees, in relation to an eligible road show. The maximum amount of the tax credit an eligible corporation may receive, for a taxation year, was limited to $40 000, calculated on an annual basis.

This tax credit was designed to encourage Québec corporations to participate in "road shows" so as to obtain better valuation of their listed securities. This measure applied to eligible communications expenditures incurred after June 29, 2000 and before July 1, 2003.

☐ REFUNDABLE TAX CREDIT FOR FUND MANAGERS (1998)

On March 31, 1998, a refundable tax credit relating to the apprenticeship period of fund managers was introduced. In general, this measure applies for a period of three years regarding the eligible salary paid by an eligible portfolio management company after March 31, 1998 to eligible fund managers for whom an eligibility certificate is issued after such date and before June 12, 2003.

Briefly, an eligible fund manager is a fund manager who, when a certificate of eligibility is first issued in his regard by the Minister of Finance earned a diploma in a relevant discipline no more than four years previously.

When this tax credit was introduced, it was equal to 40% of the eligible salary paid to an eligible fund manager. Considering that the salary eligible for this measure is capped at $75 000 on an annual basis, the amount of assistance could, when the measure was introduced, reach $30 000 per year per eligible fund manager.

In the June 12, 2003 Budget Speech, the rate of the tax credit was reduced from 40% to 30% in relation to an eligible salary attributable to a period after June 12, 2003. Consequently, on an annual basis, this tax credit is now limited to $22 500.

This measure is designed to encourage portfolio management activities in Quebec and the hiring of young graduates.

TAX CREDIT FOR HIRING JUNIOR FINANCIAL ANALYSTS SPECIALIZING IN THE SECURITIES OF QUÉBEC CORPORATIONS (2000)

Briefly, a corporation that carries on a business as an unrestricted practice investment adviser or dealer registered with the Autorité des marchés financiers and which, during a taxation year, employs an eligible junior financial analyst, may claim a refundable tax credit regarding the eligible salary paid to such financial analyst.

Generally, an eligible junior financial analyst is an individual who devotes more than 75% of his work time to financial analysis activities, mainly covering securities of Québec corporations, and who, when an eligibility certificate is first issued in his regard by the Minister of Finance, earned a diploma in a discipline relevant to securities analysis no more than four years previously.

The tax credit applies for a period of three years regarding the eligible salary paid by an eligible corporation after June 29, 2000, to eligible junior financial analysts for whom an eligibility certificate is issued by the Minister of Finance after this day and before June 12, 2003. When this tax credit was introduced, it was equal to 40% of the eligible salary paid to an eligible junior financial analyst. Considering that the salary eligible for this measure is capped at $75 000 on an annual basis, the amount of assistance could, when the measure was introduced, reach $30 000 per year per eligible junior financial analyst.

In the June 12, 2003 Budget Speech, the rate of the tax credit was reduced from 40% to 30% in relation to an eligible salary attributable to a period after June 12, 2003. Consequently, on an annual basis, this tax credit is now limited to $22 500.

By encouraging broader coverage of Québec corporations by financial analysts, this measure is designed to contribute to better valuation of the listed securities of such corporation, while favouring the training and development of young financial analysts in Québec.

☐ TAX CREDIT FOR HIRING JUNIOR FINANCIAL ANALYSTS SPECIALIZING IN FINANCIAL DERIVATIVES (2001)

Briefly, a corporation that, during a taxation year, employs a junior financial analyst specializing in financial derivatives (FD), can claim a refundable tax credit regarding the eligible salary paid to such eligible financial analyst.

Generally, an eligible junior FD analyst is an individual who devotes more than 75% of his working time to financial analysis activities concerning FDs or to investment advice or investment dealer activities specializing in FDs and who, when eligibility certificate is first issued in his regard by the Minister of Finance earned a diploma in a relevant discipline no more than four years previously.

This tax credit applies for a period of three years regarding the eligible salary paid by an eligible corporation after April 9, 2001, to eligible junior FD analysts for whom an eligibility certificate is issued by the Minister of Finance after this day and before June 12, 2003. When this tax credit was introduced, it was equal to 40% of the eligible salary paid to an eligible junior FD analyst. Considering that the salary eligible for this measure is capped at $75 000 on an annual basis, the amount of assistance could, when the measure was introduced, reach $30 000 per year per eligible junior FD analyst.

In the June 12, 2003 Budget Speech, the rate of the tax credit was reduced from 40% to 30% in relation to an eligible salary attributable to a period after June 12, 2003. Consequently, on an annual basis, this tax credit is now limited to $22 500.

This measure aims at encouraging the development, in Québec, of advanced expertise in the field of FDs, while favoring the hiring, training and development of young financial analysts specialized in FDs.

☐ TAX CREDIT FOR THE HIRING OF EMPLOYEES SPECIALIZING IN FINANCIAL DERIVATIVES (2006)

Briefly, a corporation that, during a taxation year, employs an eligible employee specializing in financial derivatives (FD) can claim a non-refundable tax credit regarding the eligible salary paid to such eligible specialized employee.

In general, an eligible specialized employee is an individual who devotes more than 75% of his work time to financial analysis activities on FDs, to investment advice or investment dealer activities specializing in FDs, or to financial product development activities using FDs, and who, when an eligibility certificate is first issued in his regard by the Minister of Finance, earned a diploma in a relevant discipline.

This non-refundable tax credit applies for a period of three years regarding the eligible salary paid by an eligible corporation after March 23, 2006 to eligible specialized employees for whom an eligibility certificate is issued by the Minister of Finance after this day and before January 1, 2010.

In addition, this non-refundable tax credit is equal to 20% of the eligible salary paid to an eligible specialized employee. However, since the eligible salary is capped at $75 000 on an annual basis, the amount of this non-refundable tax credit cannot exceed $15 000 per year, per eligible specialized employee.

This measure is intended to foster the development, in Québec, of state-of-the-art expertise in the FD field and to support the Montréal Exchange in its efforts to ensure that the Canadian FD market remains in Montréal.

☐ CREDIT FOSTERING THE PARTICIPATION OF INVESTMENT DEALERS ON THE NASDAQ STOCK MARKET (2000)

Briefly, a corporation that was registered with the Autorité des marchés financiers as an investment dealer, which was also a member corporation of the American National Association of Securities Dealers (NASD) authorized to deal in securities listed on the Nasdaq stock market as an orders entry broker or market maker broker, could receive tax assistance concerning the costs relating to its establishment on the Nasdaq Canada stock market.

Briefly, this tax assistance consists of a refundable tax credit and had four components, the first covering administrative costs, the second covering the acquisition and leasing of technological equipment, the third covering the hiring and training of personnel and lastly, the fourth covering the costs relating to the installation and maintenance of a transaction management system.

The tax credit an eligible corporation could claim, for a taxation year, was equal to 50% of the amount of eligible expenditures it incurred during such year and before January 1, 2004, under one or more of the components of the tax credit. However, the maximum cumulative amount of tax credit an eligible corporation may receive was limited to $25 000 for the first component, $100 000 for the second, $50 000 for the third, and $300 000 for the fourth.

This measure was intended to foster the participation of Québec investment dealers on the Nasdaq Canada stock exchange by reducing the initial cost of their establishment on this new Québec stock exchange.

☐ REFUNDABLE TAX CREDIT FOR RAILWAY COMPANIES (1998)

The refundable tax credit for railway companies covered the property taxes relating to railroad rights-of-way, i.e. the base of the railroad, including ditches and embankments, paid during the year by the operator of a railway business in Québec and who maintains an establishment in Québec.

The tax credit, formerly set at 75%, was reduced to 56.25% of the amount of eligible property taxes paid to a municipality under the *Act respecting Municipal Taxation* or to a school board under the *Education Act* for a taxation year ending after June 12, 2003. The tax credit was subsequently eliminated for taxation years ending after March 30, 2004.

The refundable tax credit for railway companies was designed to improve the competitive position of railway companies, without affecting the finances of local governments.

☐ REFUNDABLE TAX CREDIT FOR THE PRODUCTION OF MULTIMEDIA TITLES (1996)

This refundable tax credit depends on the eligible labour expenditures incurred in the production of eligible multimedia titles. This tax credit has two components, a general component and a component applicable to corporations whose activities consist almost exclusively in producing multimedia titles in an establishment in Québec.

The basic rate of the tax credit is 26.25%, and rises to 30% when the title is not produced to order and is intended for commercialization. This 30% rate can be increased to 37.5% if the title is available in French regarding a title for which the main production work began after June 12, 2003 or regarding eligible labour expenditures incurred after June 12, 2003, depending on the component in question. Previously, the rates were 35%, 40% and 50% respectively.

However, regarding a title for which the main production work began before December 20, 2002, the 40% rate applies when the title is intended for mass market commercialization.

Investissement Québec is responsible for issuing certificates for multimedia titles eligible for the general component, as well as certificates relative to corporations eligible for the specialized component.

The purpose of this measure is to support the production of multimedia titles and to enable Québec companies operating in this sector to compete more effectively against international companies in this field.

☐ REFUNDABLE TAX CREDITS FOR CORPORATIONS CARRYING OUT AN INNOVATIVE PROJECT IN THE FIELD OF NEW INFORMATION AND COMMUNICATIONS TECHNOLOGIES IN CERTAIN DESIGNATED SITES (1997)

A corporation that carries out an innovative project in the field of new information and communications technologies in certain designated sites, whether a CDTI or a CNE, could claim a number of tax benefits.

More specifically, such a corporation could claim, in addition to a five-year tax holiday, a refundable tax credit for wages paid to eligible employees as well as a refundable tax credit for the acquisition or lease of eligible specialized equipment.

Such a corporation could generally claim a refundable tax credit regarding the salaries paid to eligible employees for a ten-year period beginning not earlier than March 26, 1997 and ending no later than December 31, 2013.

The amount of the tax credit on wages was equal, for a taxation year, to 40% of the wages incurred during such year and paid to eligible employees, up to a maximum tax credit of $15 000 per employee, on an annual basis.

Furthermore, the amount of the tax credit for eligible specialized equipment was equal to 40% of the capital cost of the eligible specialized equipment acquired during the first three years of the tax holiday of the corporation and to 40% of rent paid, for eligible specialized equipment, during the five-year tax holiday.

These tax credits were eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from such measures or were in the process of benefiting from them were protected. Accordingly, these taxpayers can continue to obtain the tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

These fiscal measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax credits.

☐ REFUNDABLE TAX CREDIT FOR CORPORATIONS THAT CARRY OUT ACTIVITIES IN A BIOTECHNOLOGY DEVELOPMENT CENTRE (2001)

The concept of biotechnology development centres was introduced in the March 29, 2001 Budget Speech. The first biotechnology development centre was designated in Laval and others were subsequently designated elsewhere in Québec.

A corporation that carries out activities in the biotechnology sector in a biotechnology development centre can claim three refundable tax credits.

More specifically, such a corporation can claim a refundable tax credit regarding salaries paid to specified employees, a refundable tax credit for the acquisition or lease of eligible specialized equipment and a refundable tax credit regarding eligible rental expenses relating to the short-term rental of eligible specialized installations.

Such a corporation can generally claim a refundable tax credit regarding the salaries paid to specified employees for a ten-year period beginning no earlier than March 30, 2001 and ending no later than December 31, 2013. The amount of the tax credit on wages is generally equal, for a taxation year, to 30% of the wages incurred during such year and paid to specified employees, up to a maximum tax credit maximal of $11 250 per employee, on an annual basis.

With regard to eligible specialized equipment, the amount of the tax credit is equal to 30% of the capital cost of the eligible specialized equipment acquired during the first three years of the corporation's eligibility for the refundable tax credit on salaries and to 30% of rent paid, for eligible specialized equipment, during the first five years of the corporation's eligibility for the refundable tax credit on salaries.

Concerning the short-term rental of eligible specialized installations, the amount of the tax credit is equal to 30% of the amount of eligible rental expenses relating to the short-term rental, during the first five years of the corporation's eligibility for the refundable tax credit on salaries, of eligible specialized installations.

Initially, there were two types of tax assistance regarding activities in the biotechnology sector carried out in a biotechnology centre, namely assistance a corporation that carried out an innovative project could receive and assistance a corporation that carried out activities other than in the course of carrying out an innovative project could receive.

In the case of a corporation that carried out an innovative project, it could receive, in addition to the three tax credits mentioned above, a full tax holiday, i.e. an exemption from income tax, an exemption from the tax on capital and an exemption from the employer contribution to the HSF. In addition, a foreign specialist working at such a corporation could receive a tax holiday.

In the case of a corporation that carried out its activities other than in the course of carrying out an innovative project, the tax assistance it could receive was limited to the tax credit on salaries paid to specified employees and to the tax holiday a foreign specialist working at such a corporation can receive.

However, the level of this tax assistance was changed in the June 12, 2003 Budget Speech and in the March 30, 2004 Budget Speech.

The tax credit regarding salaries paid to specified employees and the tax holiday a foreign specialist could receive were eliminated in the June 12, 2003 Budget Speech regarding a corporation that carried out its activities other than in the course of carrying out an innovative project. At the same time, the amount of assistance available to a corporation that carried out an innovative project and a specialist working at such a corporation was reduced, the rates of the three tax credits declining at that time from 40% to 30% and the rate of the tax exemption available to a specialist falling from 100% to 75%.

Furthermore, as part of the March 30, 2004 Budget Speech, the concept of innovative project was eliminated and the assistance available to a corporation that carries out activities in a biotechnology development centre in the biotechnology field was standardized, allowing a corporation that carries out such activities, whether as part of an innovative project or not, to receive the three tax credits indicated above and a specialist working at such a corporation to receive a tax holiday. As a result of these changes, corporations that carried out activities in the biotechnology field in a biotechnology development centre other than in the course of carrying out an innovative project became once again eligible for tax assistance.

Lastly, the rights of taxpayers who already benefited from these fiscal measures relating to carrying out activities in the field of biotechnology in a biotechnology development centre, or were in the process of benefiting from them, were protected, either under the changes announced on June 12, 2003 or those announced on March 30, 2004. Accordingly, these taxpayers could continue to obtain the tax assistance initially stipulated for their situation and for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

These fiscal measures are the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to benefit from these fiscal measures.

☐ REFUNDABLE TAX CREDIT FOR CORPORATIONS ESTABLISHED IN THE CITÉ DU MULTIMEDIA, THE CENTRE NATIONAL DES NOUVELLES TECHNOLOGIES DE QUÉBEC OR IN A NEW ECONOMY CENTRE (1998 AND 1999)

Designated sites were created in 1998 and 1999. While their names differed, corporations that carried out specified activities in them, i.e. in the field of new information and communications technologies, could receive identical tax assistance.

More specifically, the Cité du multimédia, located near Montréal's Old Port, was created on June 15, 1998, while the Centre national des nouvelles technologies de Québec (CNNTQ), in downtown Québec City, and new economy centres (CNE), were created in the March 9, 1999 Budget Speech.

Briefly, specified corporations that moved into these designated sites could claim, for a ten-year period beginning no earlier than June 16, 1998 in the case of the Cité du multimédia and no earlier than March 9, 1999 in the case of the CNNTQ and CNEs, and ending, in both cases, no later than December 31, 2013, a refundable tax credit for specified salaries they incur and pay to specified employees to carry out specified activities in designated buildings of these designated sites.

The amount of the refundable tax credit was equal, for a taxation year, to 40% of the specified salaries incurred during such year and paid to specified employees, up to a maximum tax credit maximal of $15 000 per employee, on an annual basis.

Furthermore, these fiscal measures regarding corporations that carry out specified activities in one of these designated sites were eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from these measures, or were in the process of so doing, were protected. Accordingly, these taxpayers can continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

These fiscal measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

☐ REFUNDABLE TAX CREDIT FOR CORPORATIONS LOCATED IN E-COMMERCE PLACE (2000)

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that moved into E-Commerce Place could receive, for a ten-year period beginning no earlier than May 12, 2000 and ending no later than December 31, 2013, tax assistance with respect to eligible salaries they incur and pay to eligible employees to carry out eligible activities.

The rate of this tax assistance was generally 35% but could be reduced beginning in the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

Initially, this tax assistance consisted of a refundable tax credit. However, in the Supplement to the Government's Budgetary Policy of March 19, 2002, an election was introduced allowing an eligible corporation to claim either the refundable tax credit or a refundable credit of employer HSF contributions. The election is possible regarding taxation years of an eligible corporation ending after March 19, 2002.

Furthermore, the amount of tax assistance an eligible corporation could receive, for a taxation year, regarding the eligible salary paid to an eligible employee for such year was limited, however, to $12 500 per eligible employee. Accordingly, for the purposes of this tax assistance, the eligible salary of an eligible employee was limited to $37 417, calculated on an annual basis.

In addition, note that for eligible salaries incurred by an eligible corporation before January 1, 2001, i.e. for a period regarding which the election indicated above does not apply, the rate of this tax credit was 25%. In addition, the amount of the tax credit an eligible corporation could claim, for a taxation year, regarding the eligible salary paid to an eligible employee for such year, was limited to $10 000 per eligible employee, while the eligible salary or an eligible employee was limited to $40 000, calculated on an annual basis.

This tax assistance was designed to support job creation in the field of e-commerce operations and development.

This fiscal measure regarding corporations that carry out eligible activities in E-Commerce Place was eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from these measures, or were in process of benefiting from them, were protected. Accordingly, these taxpayers can continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

These fiscal measures are under the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

☐ REFUNDABLE TAX CREDIT FOR THE TECHNOPÔLE ANGUS (2000)

This refundable tax credit applied regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating either in the field of manufacturing or processing of goods, or in the environmental field. The tax assistance was granted to businesses that moved into the site of the former Angus shops, within the territory of the City of Montréal.

The rate of this refundable tax credit was 40%. In general, this rate applied to the amount by which the wages paid by the eligible corporation to its eligible employees, for a given calendar year, exceeded the wages paid to eligible employees during the preceding calendar year. This measure initially applied for calendar years 2000 to 2006.

The purpose of this measure was to provide compensation for the costs relating to the apprenticeship period of new employees of companies located in the Technopôle Angus.

The refundable tax credit for the Technopôle Angus was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation that was eligible on June 12, 2003 or, if it otherwise satisfied the other conditions, a corporation that submitted an application to obtain a certificate before that date, can benefit from the tax credit according to the terms and conditions previously stipulated, subject to certain rules relating to acquisitions of control.

☐ REFUNDABLE TAX CREDIT TO ENCOURAGE QUÉBEC SMES TO ADOPT E-COMMERCE SOLUTIONS (2000)

On March 14, 2000, the government introduced a refundable tax credit to encourage Québec SMEs to adopt e-commerce solutions.

Briefly, an eligible corporation could claim a refundable tax credit equal to 40% of eligible expenditures it incurred regarding an eligible e-commerce solution. However, this tax credit was limited, for an eligible corporation, to $40 000, for the entire period, described below, regarding which eligible expenditures can be incurred regarding an eligible e-commerce solution.

In this regard, the expenditures relating to the implementation of an eligible e-commerce solution had, subject to certain transition rules, to be incurred by a corporation, or by a partnership as the case may be, after March 14, 2000 and before April 1, 2002.

Furthermore, an e-commerce solution had to satisfy a set of conditions, by March 31, 2003 at the latest, to qualify as an eligible e-commerce solution.

☐ REFUNDABLE TAX CREDIT FOR BIOTECHNOLOGY DEVELOPMENT IN CERTAIN DESIGNATED SITES (2001[19] AND 2002)

The refundable tax credit for biotechnology development was introduced in the March 19, 2002 Supplement to the Government's Budgetary Policy.

This tax credit, whose rate is 40%, was granted regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology, for three consecutive calendar years. The tax assistance was granted to corporations that moved into a designated site, either the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, the Zone de développement des biotechnologies de Sherbrooke or the Cité de la biotechnologie agroalimentaire, vétérinaire et agroenvironnementale de Saint-Hyacinthe.

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[19] This measure replaces the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain that was introduced in the March 29, 2001 Budget Speech.

In general, to receive this tax credit, a corporation had to carry on, in a designated site, a business whose activities consist in manufacturing, in whole or in part, products relating to the biotechnology and human health sector, in particular drugs, vaccines, medical appliances and other derived products.

This measure was designed to stimulate the development of the biotechnology sector while encouraging companies to locate and expand in the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, the Zone de développement des biotechnologies de Sherbrooke and the Cité de la biotechnologie agroalimentaire, vétérinaire et agroenvironnementale de Saint-Hyacinthe.

The refundable tax credit for biotechnology development in certain designated sites was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation eligible on June 12, 2003 or, if it satisfies otherwise the other conditions, a corporation that filed an application for a certificate before then, can receive the tax credit as previously stipulated, subject to certain rules relating to acquisitions of control.

REFUNDABLE TAX CREDIT FOR E-BUSINESS ACTIVITIES CARRIED OUT IN CERTAIN DESIGNATED SITES (2001)

The refundable tax credit for e-business activities carried out in certain designated sites was introduced on November 1, 2001.

This refundable tax credit, whose rate is 35%, was granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation that moved into designated premises located either in the Montréal E-Commerce Zone or in the Centre national des nouvelles technologies de Québec (CNNTQ), for five consecutive calendar years.

In general, to receive this tax credit, a corporation had to carry on, in a designated site, a business whose activities concern the development and supply of products and services relating to e-business, the operation of e-business solutions or a customer contact centre.

This measure was designed to stimulate the development of certain activities relating to information technology and encourage companies to locate and expand in the Montréal and Québec City regions.

The refundable tax credit for e-business activities carried out in certain designated sites was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation eligible on June 12, 2003 or, if it satisfies otherwise the other conditions, a corporation that filed an application for a certificate before then, can receive the tax credit as previously stipulated, subject to certain rules relating to acquisitions of control.

❑ REFUNDABLE TAX CREDIT FOR NUTRACEUTICALS AND FUNCTIONAL FOODS (2002)

The refundable tax credit for nutraceuticals and functional foods was introduced in the Supplement to the Government's Budgetary Policy of March 19, 2002.

This tax credit, whose rate is 40%, was granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the functional foods and nutraceuticals sector in the Québec City region, for three consecutive calendar years.

In general, to receive this tax credit, a corporation had to carry on, in the Québec City region, a business whose activities consist in manufacturing, in whole or in part, functional foods and nutraceuticals.

This measure was designed to stimulate the development of the functional foods and nutraceuticals sector and encourage companies to locate and expand in the Québec City region.

The refundable tax credit for nutraceuticals and functional foods was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation eligible on June 12, 2003 or, if it satisfies otherwise the other conditions, a corporation that filed an application for a certificate before then, can receive the tax credit as previously stipulated, subject to certain rules relating to acquisitions of control.

❑ REFUNDABLE TAX CREDIT FOR INNOVATION CENTRES (2002)

The refundable tax credit for innovation centres was introduced in the March 19, 2002 Supplement to the Government's Budgetary Policy.

This tax credit, whose rate is 40%, was granted regarding the increase in payroll attributable to eligible employees of an eligible corporation that moved into a designated site, namely the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec, for five consecutive calendar years.

In general, to receive this tax credit, a corporation had to carry on, in a designated site, a business whose activities are related to information technology or certain general application technologies.

This measure was intended to provide further support for innovation in the most promising sectors of the knowledge-based economy and encourage companies to locate and expand in the Montréal and Québec City regions.

The refundable tax credit for innovation centres was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation eligible on June 12, 2003 or, if it satisfies otherwise the other conditions, a corporation that filed an application for a certificate before then, can receive the tax credit as previously stipulated, subject to certain rules relating to acquisitions of control.

☐ REFUNDABLE TAX CREDIT FOR MAJOR EMPLOYMENT-GENERATING PROJECTS (2005)

In the April 21, 2005 Budget Speech, a refundable tax credit was introduced regarding major employment-generating projects in the information technology sector.

Briefly, this tax credit, which has a rate of 25%, is granted to a corporation for salaries paid to eligible employees working in the course of carrying out an eligible contract. Such a corporation must, however, obtain an eligibility certificate from Investissement Québec confirming that it is reasonable to consider that the completion of the eligible contract will lead to the creation of a minimum of 150 jobs, within 24 months following the date when activities relating to the eligible contract began.

The refundable tax credit regarding major employment-generating projects is granted regarding eligible salaries incurred by an eligible corporation paid to its eligible employees after December 31, 2004 and before January 1, 2017.

Essentially, this tax credit is designed to consolidate the development of information technology throughout Québec while encouraging businesses to locate and expand here.

☐ REFUNDABLE TAX CREDIT RELATIVE TO THE DECLARATION OF TIPS (1997)

Various measures to improve and restore order to the situation regarding the declaration of tips in the restaurant and hotel sector were introduced in 1997.

These measures require employees who receive tips while carrying out their duties to declare the amount in writing to their employer. In addition, when the amount so declared to the employer, for a pay period, is less than 8% of the employee's sales subject to tips, for such period, an amount equal to the difference between tips declared to the employer and the amount representing 8% of the employee's sales subject to tips is generally attributed to the employee as tips.

Furthermore, employers are required to pay various charges regarding these tips, but can claim a refundable tax credit for them.

For taxation years – or fiscal years if the employer is a partnership – ended before June 13, 2003, the tax credit relative to the declaration of tips essentially corresponds to the portion of employer contributions which is attributable to tips, to the portion of the annual vacation benefit of an employee which is attributable to tips, as well as to the employer contributions payable in relation to such portion of the vacation benefit.

Since June 13, 2003, the tax assistance allowed under this tax credit is subject to a 25% reduction. Transition rules have been set up for employers whose taxation year or fiscal year, as the case may be, began before January 1, 2004. For a taxation year or fiscal year beginning after December 31, 2003, the 25% reduction of the tax assistance allowed under the tax credit relative to the declaration of tips applies fully, so that this tax credit corresponds, essentially, to 75% of all the amounts each of which represents the portion of the employer contributions that is attributable to tips, the portion of the annual vacation benefit of an employee which is attributable to tips, as well as the employer contributions payable in relation to such portion of the vacation benefit.

Following the Budget Speech of March 23, 2006, the expenditures eligible for the tax credit also include the portion of the indemnities for statutory general holidays (January 1, Good Friday or Easter Sunday, at the employer's option, the Monday preceding May 25, June 24 or, if that date falls on a Sunday, June 25, July 1 or, if that date falls on a Sunday, July 2, the first Monday in September, the second Monday in October and December 25) and for days of leave for family or parental matters (i.e. days on which an employee may be absent from work without reduction in wages for family or parental matters under the *Act respecting labour standards*) that is attributable to tips and that was paid after March 23, 2006.

This tax credit seeks to compensate the increase in charges payable by an employer because of the implementation of measures regarding the declaration of tips and to support the hotel and restaurant industry.

☐ REFUNDABLE TAX CREDIT FOR THE PRODUCTION OF ETHANOL IN QUÉBEC (2005)

In the Budget Speech of April 21, 2005 a refundable tax credit was introduced regarding the production of ethanol in Québec, to foster the diversification of Québec energy supplies.

This tax credit is granted, for a maximum of ten years beginning no earlier than April 1, 2006 and ending no later than March 31, 2018, regarding the production of ethanol in Québec by an eligible corporation.

In general, any corporation, other than an excluded corporation, which, during a taxation year, has an establishment in Québec where it carries on an ethanol production business may, under certain conditions, claim the refundable tax credit for such year.

The maximum rate of the tax credit, for a given month, is $0.185 per litre. However, as a result of certain reduction factors, no tax credit is granted, for a given month, where the average monthly price of crude oil is equal to or greater than US$65. Annual and cumulative ceilings on ethanol production in addition to a monetary cap are stipulated for this tax credit.

Moreover, an eligible corporation's ethanol production must be sold, in Québec, to a person who holds a collection officer's permit issued under the *Fuel Tax Act*.

☐ REFUNDABLE TAX CREDIT ON THE WAGES OF ELIGIBLE EMPLOYEES RELATING TO THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (1999)

The tax benefits relating to the Montréal Foreign Trade Zone at Mirabel (Mirabel Zone) were eliminated in the June 12, 2003 Budget Speech. However, transition rules allow some corporations to continue to receive these tax benefits.

Accordingly, a corporation that, on June 12, 2003, carried on an eligible business within the Mirabel Zone can continue to claim a refundable tax credit for wages paid to eligible employees of such business. Eligible employees are those at least 75% of whose duties consist of work relating to an activity of the eligible business and whose employment contract stipulates at least 26 hours of work per week for a minimum of 40 weeks.

This tax credit corresponded to 40% of wages incurred for an eligible employee before January 1, 2002. However, the tax credit was capped, for such period, at $15 000 per employee, on an annual basis. Concerning the wages incurred for an eligible employee during the period between December 31, 2001 and January 1, 2005, this tax credit corresponded to 30% of such wages. However, the tax credit was capped, for such period, at $12 000 per employee, on an annual basis. Lastly, concerning the wages incurred for an eligible employee during the period between December 31, 2004 and January 1, 2014, this tax credit corresponds to 20% of such wages. However, the tax credit is capped, for such period, at $8 000 per employee, on an annual basis.

☐ REFUNDABLE TAX CREDIT FOR AN ELIGIBLE CUSTOMS BROKERAGE CONTRACT RELATING TO THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (1999)

The tax benefits relating to the Montréal Foreign Trade Zone at Mirabel (Mirabel Zone) were eliminated in the June 12, 2003 Budget Speech. However, transition rules allow some corporations to continue to receive these tax benefits.

Accordingly, a corporation that, on June 12, 2003, carried on an eligible business within the Mirabel Zone can continue to claim a refundable tax credit for fees incurred under an eligible customs brokerage contract, i.e. a contract concluded with a customs broker which is at arm's length with the corporation, concerning services supplied to the corporation, before January 1, 2014, in the course of the activities of the eligible business.

This tax credit corresponded to 40% of the fees incurred, prior to January 1, 2002, for an eligible customs brokerage contract. However, the tax credit was capped, for such period, at $30 000, on an annual basis. Concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2001 and January 1, 2005, the tax credit corresponded to 30% of such fees. However, the tax credit was capped, for such period, at $24 000, on an annual basis. Lastly, concerning the fees incurred for an eligible customs brokerage contract during the period from December 31, 2004 and January 1, 2014, the tax credit corresponds to 20% of such fees. However, the tax credit is capped, for such period, at $16 000, on an annual basis.

☐ REFUNDABLE TAX CREDIT FOR THE ACQUISITION OR LEASE OF ELIGIBLE EQUIPMENT RELATING TO THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (1999)

The tax benefits relating to the Montréal Foreign Trade Zone at Mirabel (Mirabel Zone) were eliminated in the June 12, 2003 Budget Speech. However, transition rules allow some corporations to continue to receive these tax benefits.

Accordingly, a corporation that, on June 12, 2003, carried on an eligible business within the Mirabel Zone can continue to claim a refundable tax credit for eligible equipment used in the course of carrying on such business. The expression eligible equipment essentially means equipment which, prior to its acquisition or lease by the corporation, was not used for any purpose nor acquired to be used or leased for any purpose whatsoever, and which must be used wholly or almost wholly in the Mirabel Zone to earn income from an eligible business.

This tax credit corresponds to 25% of the expenses incurred by the corporation to acquire, before January 1, 2014, such eligible equipment. Concerning the lease of eligible equipment, the tax credit corresponds to 25% of the rent paid by the corporation during the eligible lease period designated by Investissement Québec.

☐ REFUNDABLE TAX CREDIT FOR THE CONSTRUCTION OF STRATEGIC BUILDINGS IN THE MONTRÉAL FOREIGN TRADE ZONE AT MIRABEL (2000)

A corporation that carries on a business and has an establishment in Québec could claim a refundable tax credit for the construction of strategic buildings in the Montréal Foreign Trade Zone at Mirabel. In this regard, the expression strategic building means essentially a building or part of a building which is built inside this zone, no part of which is used or is intended to be used for residential purposes and regarding which the corporation holds an eligibility certificate issued by Investissement Québec.

Briefly, this tax credit corresponded to 25% of construction costs incurred by the corporation for a strategic building. In this regard, only eligible construction costs incurred in relation to work carried out no later than June 12, 2004 could give rise to this tax credit.

☐ TEMPORARY REFUNDABLE TAX CREDIT FOR THE ACQUISITION OF PIG MANURE TREATMENT FACILITIES (2006)

On March 23, 2006, the government implemented a temporary refundable tax credit for the acquisition of pig manure treatment facilities.

Briefly, an eligible taxpayer may claim a refundable tax credit equal to 30% of the eligible expenses he incurs regarding eligible facilities. However, this tax credit is capped, for each farm establishment, at $200 000, for the entire period, described below, in respect of which eligible expenses may be incurred regarding eligible facilities.

In this regard, eligible expenses directly attributable to the acquisition of eligible facilities and their installation must, subject to certain transition rules, be incurred by the taxpayer, or by a partnership as the case may be, after March 23, 2006 and before April 1, 2010.

Moreover, a taxpayer, or the partnership of which he is a member, as the case may be, must be recognized as a pig producer by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ) to receive the refundable tax credit. In addition, eligible facilities must satisfy a set of conditions. In this regard, an eligibility certificate to the effect that the facilities satisfy the applicable conditions must be obtained from MAPAQ.

This measure is designed to help the pork industry to deal with increasing environmental demands, particularly regarding the treatment of pig manure.

☐ REFUNDABLE TAX CREDIT FOR THE CITÉ DE L'OPTIQUE (1999)

This refundable tax credit applied regarding the increase in payroll attributable to production or commercialization employees of an eligible corporation operating in the field of optics, photonics or lasers in the Québec City region.

The rate of this tax credit was 40%. In general, this rate applied to the amount by which the salaries paid by the eligible corporation to its eligible employees, for a given calendar year, exceeds the salaries paid to eligible employees during the preceding calendar year.

This measure, which applied initially for calendar years 1999 to 2006, was designed to provide compensation for the costs relating to the apprenticeship period of new employees of a corporation operating in the field of optics, photonics or lasers in the Québec City region.

The refundable tax credit for the Cité de l'optique was eliminated in the June 12, 2003 Budget Speech. However, briefly, a corporation eligible on June 12, 2003 or, if it otherwise satisfies the other conditions, a corporation that filed an application for a certificate before then, can receive the tax credit as previously stipulated, subject to certain rules relating to acquisitions of control.

☐ REFUNDABLE TAX CREDIT FOR THE VALLÉE DE L'ALUMINIUM (2000)

The refundable tax credit for the Vallée de l'aluminium was introduced in 2000.

Briefly, this tax credit, which has a rate of 30% (35% in 2003 and 40% from 2000 to 2002), is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the administrative region of Saguenay-Lac-Saint-Jean, until December 31, 2009. However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in this region no later than during calendar year 2007.

This measure is designed to stimulate, in this region, the manufacturing of finished or semi-finished products, from aluminum that has already undergone primary processing and the development and recycling of waste and residue resulting from the processing of aluminum.

☐ REFUNDABLE TAX CREDIT FOR GASPÉSIE AND CERTAIN MARITIME REGIONS OF QUÉBEC (2000)

The refundable tax credit for Gaspésie and certain maritime regions of Québec was introduced in 2000.

This tax credit, whose rate is 40% (35% in 2003), is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in certain maritime regions of Québec, namely Gaspésie-Îles-de-la-Madeleine, Côte-Nord, Bas-Saint-Laurent and the Matane RCM, until December 31, 2009. To receive this tax credit, an eligible corporation must begin to carry on a certified business in one of these regions no later than during calendar year 2007.

Special terms and conditions apply when an eligible corporation operates in the marine biotechnology and mariculture sectors. In such a case, the tax credit is granted on the total payroll attributable to eligible employees of such corporation, for each of the five calendar years.

In general, this refundable tax credit is allowed for specific activities carried out in sectors involving the development of marine or wind-power resources, to offset the costs associated with creating or expanding a certified business in these sectors.

☐ REFUNDABLE TAX CREDIT FOR PROCESSING ACTIVITIES IN RESOURCE REGIONS (2001)

The refundable tax credit for processing activities in the resource regions was introduced on March 29, 2001.

This refundable tax credit, whose rate is 30% (35% in 2003 and 40% in 2001 and 2002), is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in one of Québec's resource regions, until December 31, 2009. To receive this tax credit, an eligible corporation must begin carrying on a certified business in a resource region no later than during calendar year 2007.

In general, to receive this tax credit, a corporation must carry on, in a resource region, a business whose activities concern, in particular, the secondary or tertiary processing of wood, metals and non-metallic minerals, food processing, production of non-conventional energy or aquaculture.

This measure is intended to foster the economic diversification of the resource regions and stimulate the development and expansion of businesses. Resource regions consist of the administrative regions of Bas-Saint-Laurent, Saguenay–Lac-Saint-Jean, Mauricie, Abitibi-Témiscamingue, Côte-Nord, Nord-du-Québec, Gaspésie–Îles-de-la-Madeleine and the Antoine-Labelle, Vallée-de-la-Gatineau and Pontiac RCMs.

☐ REFUNDABLE TAX CREDIT FOR HIRING NEW GRADUATES (2003)

The refundable tax credit for hiring new graduates was introduced March 11, 2003 and applied regarding wages incurred after this date, regarding an eligible employee hired after this date and before June 13, 2003.

Accordingly, an employer that carried on a business in a remote resource region could claim a tax credit equal to 20% of the wages he incurred regarding an eligible employee and that were attributable to a period not exceeding a total of 52 weeks. The maximum amount of tax credit an employer could thus claim, for an eligible employee, was $8 000.

To be eligible, an employee must have successfully completed a program leading to a recognized diploma and began to hold a job related to the field of specialization for which he completed the program in the twelve months following the time he completed the program.

The purpose of this tax credit was to encourage employers operating in the regions to hire new graduates to curb the exodus of young people and accelerate the economic development of the regions.

☐ TAX CREDIT RELATING TO RESOURCES (2001)

On March 29, 2001, the government announced the implementation of a refundable tax credit relating to resources.

Accordingly, an eligible corporation that incurs eligible expenses can claim a tax credit of up to 38.75% of the amount of such eligible expenses.

Briefly, eligible expenses are all the expenses incurred by a corporation and attributable either to exploration expenses that, under the flow-through share system, allow an individual to claim a deduction of at least 125%, or expenses incurred in Québec and relating to renewable energy and energy conservation allowing an individual to claim a deduction of 100%.

The basic rate of the tax credit a corporation may claim is 15%. This rate is raised to 35% regarding eligible expenses incurred by a corporation that does not operate any mineral resource or oil or gas well, and which is not related to a corporation that operates a mineral resource or oil or gas well. In addition, the rates of 15% and 35% are raised to 18.75% and to 38.75%, respectively, regarding eligible expenses incurred by an eligible corporation in Québec's Near North or Far North. In the specific case of expenses incurred in Québec and relating to renewable energy and to energy conservation, a rate of 35% applies regarding eligible expenses incurred by a corporation that does not operate any mineral resource or oil or gas well, and which is not related to a corporation that operates a mineral resource or oil or gas well, while a rate of 30% applies regarding eligible expenses incurred by other corporations.

In addition, only those eligible expenses that have not been foregone for the purposes of the *Taxation Act* under the flow-through share system enable an eligible corporation to benefit from this assistance mechanism.

This refundable tax credit applies, subject to expenses foregone in favour of an investor under the flow-through share system, regarding eligible expenses incurred after March 29, 2001.

Furthermore, since November 1, 2001, the scope of this tax credit has been broadened to include another type of natural resource, namely cut stone. In the case of this type of natural resource, a single rate of 15% is applicable. This improvement applies regarding eligible expenses incurred after November 1, 2001.

Moreover, a temporary improvement to this tax credit was announced on August 20, 2002. This improvement was made by adding, until 2007 inclusive, a non-refundable portion, bringing the rate of the tax credit to 45% in the case of eligible expenses incurred regarding mineral resources. This temporary improvement applies regarding such eligible expenses incurred after August 20, 2002 and before January 1, 2008.

Lastly, the rates of this tax credit have changed over the years. For instance, the rate that this tax credit can reach, currently 38.75%, was 33.75% of the amount of eligible expenses incurred before March 31, 2004 and 45% for those incurred before June 13, 2003. Similarly, the higher rate, currently 35% for eligible expenses incurred by a corporation that does not operate any mineral resource or oil or gas well and which is not related to a corporation that operates a mineral resource or oil or gas well, was 30% of the amount of such eligible expenses incurred before March 31, 2004 and 40% for those incurred before June 13, 2003. The basic rate of the tax credit a corporation can claim, currently 15%, was 20% regarding eligible expenses incurred before June 13, 2003.

☐ REFUNDABLE TAX CREDIT FOR THE CONSTRUCTION OF PUBLIC ACCESS ROADS AND BRIDGES IN FOREST AREAS (2006 AND 2003)

On March 23, 2006, a refundable tax credit for the construction or major repair of public access roads and bridges in forest areas was introduced. This tax credit enables an eligible corporation that incurs eligible expenses for the construction or major repair of eligible access roads or bridges to claim a refundable tax credit corresponding to 40% of the amount of such eligible expenses.

Only expenses relating to the construction or major repair of eligible access roads and bridges incurred after March 23, 2006 and prior to January 1, 2011 give rise to a tax credit.

This measure is designed to foster the development of forest roads.

Moreover, on March 11, 2003, the government announced the implementation of a temporary tax credit for the construction of public access roads and bridges in forest areas. However, this fiscal measure was eliminated in the June 12, 2003 Budget Speech, subject to certain transition rules. Accordingly, this tax credit applied for a very short time.

2.1.4 Deferrals

☐ EXPENSES RELATING TO RESOURCES (ACCELERATED AMORTIZATION)

Canadian exploration expenses (CEE), Canadian development expenses (CDE), Canadian oil and gas property expenses (COGPE), Canadian exploration and development expenses (CEDE) and foreign exploration and development expenses (FEDE) enable the taxpayer to amortize his exploration and development expenses for quickly than accounting rules allow. Only CEE and CDE are dealt with below, because the amounts at issue regarding the other expenses are relatively small. In addition, caution is called for in estimating the total value of these tax expenditures, since mining, oil and gas companies can transfer CEE, CDE and COGPE to individuals by foregoing them and issuing flow-through shares. In Québec, the additional deductions of 25% or 50% for exploration expenses incurred in Québec encourage such transfers by junior exploration companies.

The rates of these additional deductions have changed over the years. They were 10.42% or 31.25% before March 31, 2004 and 25% or 75% before June 13, 2003.

— Accelerated amortization of Canadian exploration expenses (1974)

Expenses incurred in prospecting, exploring or searching for minerals, oil or natural gas, or in the development of mineral resources in Canada can be deducted at a rate of 100% for income tax purposes. These expenses are entered by the taxpayer in a separate account whose balance can be deducted during a subsequent taxation year. This deduction is optional and can be used to create a business loss. These expenses can be carried forward indefinitely.

This 100% amortization is greater than what is suggested by accounting principles and results in a deferral of income tax payable. It is designed to encourage exploration for natural resources in Canada.

— Accelerated amortization of Canadian development expenses (1974)

In general, development expenses in the oil and gas sector in Canada are considered Canadian development expenses and are amortized at a rate of 30% of residual value. The development expenses of mining corporations already in commercial production are treated the same way. Those of new mines are treated as Canadian exploration expenses.

These expenses are entered in a separate account and the non-deducted balance of the account need not be used within a set time limit; it can be carried forward indefinitely.

Since accounting principles would suggest amortizing such expenses using the full costing method (capitalize the costs and amortize as the reserves are developed and sold), the amortization rate of 30% constitutes a benefit for corporations which incur such expenses, since exploitation generally lasts at least ten years.

☐ EXPENSES RELATING TO RENEWABLE ENERGY AND ENERGY CONSERVATION IN CANADA (1997)

This category of expenses was introduced to allow full deduction of certain costs associated with the development of certain projects relating to renewable energy and projects for which the equipment gives rise to an accelerated deduction. The costs of acquisition and installation of wind generators for test purposes are also deductible as Canadian renewable and conservation expenses (CRCE).

CRCE can be covered by an agreement for the issue of flow-through shares. They were introduced to make the tax system fairer as it applies to the financing of renewable and non-renewable energy projects.

☐ DEDUCTION OF SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (R&D) CAPITAL EXPENDITURES (1972)

In general, R&D expenditures can be deducted immediately, even though some of them may constitute capital expenditures.

In the absence of this measure regarding R&D expenditures, these amounts would have been amortized over many years (in accordance with accounting and tax rules) and not immediately deducted. In general, expenditures intended to produce income in the future are in the nature of capital expenditures and accordingly should be amortized over the entire period during which such income is earned.

This measure constitutes preferred treatment designed to encourage R&D.

☐ DEDUCTIBILITY OF LAND-HOLDING EXPENSES (1972)

Interest expenses on a debt concerning the acquisition of land and the property taxes paid or payable on land (holding expenses) are eligible as a deduction in calculating a taxpayer's income if the land is held mainly to earn income from it or if it is used in the course of carrying on a business which does not consist in holding the land for resale or development.

However, in the case of a taxpayer who carries on a business in the normal course of which he holds land in inventory for resale or development, the expenses of holding such land are allowable as a deduction in calculating his income only up to the amount of net income earned from such land. The excess amount, if any, must be added to the cost of the land held in inventory for inclusion upon disposition of the land.

In the specific case of a corporation whose business consists mainly in renting or selling, or developing for the purpose of renting or selling immoveable property, land-holding expenses may be deducted up the amount of all the net income earned from such land and the corporation's basic deduction. Briefly, such basic deduction, for a year, corresponds to the amount that would be the interest for the year, calculated at the prescribed rate, on a loan of $1 000 000 that would not be repaid during the year. However, such basic deduction must be divided among related corporations.

The purpose of these measures is to recognize the high costs relating to holding land in inventory.

☐ RULE ON ASSETS READY TO BE PUT INTO SERVICE (1990)

Prior to 1990, taxpayers could claim a deduction for depreciation regarding assets which had yet to produce income (i.e. were not in service). In many cases, this led to a significant mismatch between revenues and expenditures, which gave rise to a tax deferral for taxpayers.

Since 1990, taxpayers generally can claim a deduction for depreciation, for eligible assets, only as of the time they put them into service or as of the second taxation year following the year of their acquisition, whichever occurs first.

The purpose of this measure is to have the period during which an asset can entitle a taxpayer to a deduction in calculating his income coincide with the period during which such asset is used to earn income.

☐ IMMEDIATE DEDUCTION OF ADVERTISING EXPENSES (1972)

Advertising expenses are eligible as a deduction in calculating a taxpayer's income for the year in which they are incurred, even if they can produce economic benefits in subsequent years.

The purpose of this measure is to simplify the tax system. While advertising expenses should normally be amortized over the useful life of the economic benefits they give rise to, it is difficult to estimate such period with an acceptable degree of accuracy.

☐ ENVIRONMENTAL TRUST (1997)

Contributions paid by an operator to an environmental trust set up for the sole purpose of funding the reclamation of a site that is or has been used primarily for, or for any combination of, the operation of a mine, the extraction of clay, peat, sand, shale or aggregates, including dimension stone and gravel, or the deposit of waste are allowable as a deduction in calculating his income. The earnings of the trust are taxed as income of the trust. Operators are required to declare the income earned by the trust as though it had been earned by them. In addition, amounts withdrawn from such a trust by an operator are taxable, but the restoration expenses he incurs can be deducted in calculating his income.

Accordingly, the time at which the restoration expenses are deducted is brought forward. The tax expenditure, for a given year, corresponds to the relief obtained by taxpayers who can deduct contributions paid to the trust from their income. It can be positive or negative depending on the amount of contributions to and withdrawals from the trust for such year.

Lastly, subject to certain conditions, such a trust is subject to a special tax. However, this special tax is covered by a refundable tax credit granted to the beneficiaries of these trusts.

☐ HOLDBACKS ON STAGGERED PAYMENTS TO CONTRACTORS (1972)

In the construction industry, contractors generally receive staggered payments as work progresses. However, a portion of these payments (generally 10 to 15%) is often held back until satisfactory completion of the work. The amounts held back do not have to be included in the contractor's income until the certified completion of the work to which the holdback applies. When a contractor himself holds back an amount owed to a sub-contractor, an amount of expense equal to that of the holdback is considered not to have been incurred by the contractor and is not deductible in calculating his income until such holdback is paid. The net effect of these two measures on the tax payable by the contractor depends on the relation between holdbacks payable and holdbacks receivable. If holdbacks receivable are greater than holdbacks payable by the contractor, there is a tax deferral. If holdbacks payable are greater than holdbacks receivable by the contractor, a portion of tax is paid in advance.

The purpose of this measure is to recognize that the amounts thus held back do not necessarily constitute income earned or an expense incurred, as the case may be, even if they refer to work already completed.

ACCELERATED DEPRECIATION, ADDITIONAL 20% DEDUCTION AND SUPPLEMENTARY 25% DEDUCTION (1988, 1989 AND 1997)

Taxpayers who carry on a business in Québec could claim a depreciation deduction of 100% of the capital cost of certain assets used in Québec, regardless of the half-year rule and put-in-service rules generally applicable under the tax legislation.

Briefly, the assets that allowed a taxpayer to claim this deduction for accelerated depreciation are manufacturing or processing equipment, foreign ore processing equipment and universal electronic information processing equipment (computer hardware). On March 14, 2000, the deduction for accelerated depreciation was temporarily broadened to optical fibre cables and coaxial cables acquired after this date and used in certain designated regions of Québec. Intangible assets, such as patents, licences, permits, know-how or trade secrets, acquired in the course of a technology transfer, also gave rise to this deduction.

In addition, taxpayers who carry on their business in part in Québec and in part outside Québec could claim an additional deduction equal to 20% of the deduction for depreciation claimed for such assets for a taxation year (the rate of this additional deduction was 25% prior to March 26, 1997). The amount thus obtained, for a year, was then multiplied by the proportion, for such year, of business done outside Québec by the taxpayer to that done in Québec.

The March 25, 1997 Budget Speech introduced a supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors (the tax holiday is described separately in the section on the tax on capital).

Taxpayers who acquired assets otherwise eligible for the accelerated depreciation deduction could generally claim a supplementary deduction equal to 25% of the accelerated depreciation deduction claimed for a taxation year, thus bringing the total deduction to 125%. If a taxpayer did part of his business outside Québec during a taxation year, the amount of the supplementary deduction is divided by the proportion of his business done in Québec for such year, so that he benefits fully from this supplementary deduction.

These measures were designed to encourage investment in Québec. More specifically, the accelerated depreciation sought to promote what are considered priority investments. As for the additional deduction, its purpose was to grant the same financial value for the deduction for accelerated depreciation to companies doing business in other jurisdictions where the tax treatment of such investments is less advantageous.

These fiscal measures that are specific to Québec's tax system were eliminated, subject to certain transition rules, regarding property acquired after June 12, 2003.

2.1.5 Other tax expenditures

☐ NON-TAXATION OF INVESTMENT INCOME FROM LIFE INSURANCE POLICIES (1972)

The tax legislation divides life insurance policies into two categories: policies in the nature of savings and policies in the nature of protection.

Policies in the nature of savings are those where the funds invested in the policy are substantial in relation to the death benefit. Holders of such policies are subject to tax on the income accrued in the year regarding the net investment income attributable to their policies.

Holders of policies in the nature of protection, however, are not subject to taxation of the annual accrued income. The net investment income is taxed when the policy is surrendered or cancelled, for a reason other than the death of the insured person, or when paid in the form of policy dividends, provided the accumulated dividends exceed the total premiums paid under the policy.

This distinction between types of life insurance policies is intended to simplify the tax system. For administrative reasons, insurance companies are subject to tax on investment income earned annually on policies in the nature of protection, but only at the federal level at a rate of 15%.

This tax expenditure is related, for the most part, to policies in the nature of protection.

☐ ACCELERATED DEPRECIATION TO HELP SMALL BUSINESSES MAKE THEIR COMPUTER SYSTEMS YEAR 2000 COMPLIANT (1998)

An accelerated depreciation deduction, of up to $50 000, was allowed to small and medium-size enterprises regarding the cost of computer hardware and software acquired after December 31, 1997 and before November 1, 1999 to replace computer equipment that is not year 2000 compliant.

This tax relief was designed to help small and medium-size enterprises deal with the year 2000 problem.

☐ NON-TAXATION OF LIFE INSURANCE COMPANIES ON THEIR INCOME FROM FOREIGN SOURCES (1972)

In general, companies with an establishment in Québec are subject to Québec tax on their income from all sources, based on the ratio between their business in Québec and their business in Québec and elsewhere (business allocation).

In the case of multinational life insurance companies, only the tax relating to their income from carrying on their life insurance business in Canada, as opposed to the tax relating to their world income, is payable in Québec in accordance with the business allocation rules.

These rules are designed to make allowance for the specific requirements regarding the life insurance industry.

☐ EXEMPTION FROM QUÉBEC TAX OF THE PROFITS OF FOREIGN AIR AND MARINE TRANSPORTATION COMPANIES (1972)

Provided the country of residence of a person carrying on an international marine or air transportation business offers similar treatment for persons residing in Canada, the income earned in Canada by a person not residing in Canada and earned from international transportation by ship or airplane is not subject to income tax in Québec.

This international reciprocity measure is designed to simplify the income tax rules relating to companies the nature of whose trading activities requires that they do business in many countries.

☐ FEDERAL AVIATION FUEL EXCISE TAX REBATE PROGRAM (1997)

The federal government implemented a rebate program, for calendar years 1997 to 2000 inclusive, for the excise tax on aviation fuel used by airline companies. The amount of the rebate of the tax was added to the company's income, except to the extent that its tax losses were reduced according to the terms of the program.

There was no similar measure in the Québec system. The amount added for the purpose of calculating federal income tax did not have to be included in calculating income for Québec tax purposes. The excise tax rebate obtained from the federal government did not reduce the eligible expenditure deduction nor did it constitute a taxable amount for Québec tax purposes.

This measure enabled airline companies active in Canada to obtain a refund of the excise tax, in return for foregoing their tax losses ($10 of tax losses for $1 of rebate).

☐ TAX ASSISTANCE FOR THE CAPITALIZATION OF THE RÉSEAU D'INVESTISSEMENT SOCIAL DU QUÉBEC (1997)

The main objectives of the Réseau d'investissement social du Québec are to contribute to the capitalization of social enterprises in Québec and provide management support for them.

To assist with its capitalization, contributions paid by a corporation entitle it to an additional deduction, in calculating its income for a taxation year, equal to 50% of the amount paid otherwise eligible as a deduction.

2.1.6 Tax measures shown for information purposes

☐ TAX DEPRECIATION (EXTRA AMOUNT COMPARED WITH ACCOUNTING DEPRECIATION) (1972)

A taxpayer who carries on a business or earns income from property (rent, for instance) can deduct a portion of the cost of certain assets used for this purpose in calculating his income.

This deduction, commonly called "deduction for depreciation", can in some cases exceed the economic depreciation of the asset. Accordingly, a deferral of tax may result when the tax deductions during the initial years of the useful life of the asset exceed the real economic depreciation of such asset.

This measure, besides recognizing that the assets used to earn income depreciate, is designed to make matters simpler for taxpayers and the tax authorities regarding the determination of the amount to be considered for this purpose in calculating income.

☐ DEDUCTION OF REBATES OF SAVINGS AND CREDIT UNIONS AND COOPERATIVES (1972)

Rebates (distribution of part of the excess of revenue over expenses) paid by a savings and credit union or by a cooperative to its members are deductible in calculating its business income.

Rebates are similar to a refund of over-charges depending on the quantity of purchases made. In this case, they would not be considered a tax expenditure. Rebates can also be considered a distribution of earnings to members, in which case they should not be deductible and accordingly would constitute a tax expenditure.

It should be noted that a taxpayer who receives rebates in relation to goods or services whose cost he can deduct in calculating his income from a business or property, must include their amount in his income.

DEFERRAL OF CAPITAL GAINS THROUGH VARIOUS ROLLOVER PROVISIONS (1972)

Taxation of capital gains is deferred by provisions which allow taxpayers to avoid having to report accrued gains for tax purposes through various rollover provisions. Here are some examples:

- transfer of property to a corporation or to a partnership in consideration for shares of the corporation or an interest in the partnership;
- merger of taxable Canadian corporations;
- winding-up of a subsidiary which is absorbed by its parent company;
- exchange of an identical number of shares.

The purpose of these provisions is to allow some flexibility for taxpayers who decide to reorganize their affairs and to avoid having taxpayers being required to immediately bear a tax burden simply because such a reorganization has occurred.

Concerning the first situation mentioned above, some specific application details were introduced in 1997. Accordingly, apart from certain exceptions, when the parties have carried out a rollover to transfer property for federal income tax purposes, a rollover is deemed to have occurred regarding the transfer of such property for Québec income tax purposes. Moreover, the amount that must be considered as the proceeds from the disposal for the transferor and the cost of the property for the beneficiary of the transfer, for the application of Québec tax, is deemed to be the amount considered in this respect from the standpoint of the choice of rollover exercised for the application of federal tax. Similarly, if no turnover took place in respect of the transfer of property for the application of federal tax, no rollover is possible as regards the transfer of this property for the application of Québec tax.

The latter provisions are designed to put an end to transactions designed to avoid provincial tax based on the existence of separate rollover elections in the federal and Québec tax legislations.

DEDUCTION OF ENTERTAINMENT EXPENSES (1972)

Meal and entertainment expenses incurred by a taxpayer in the course of carrying on a business or to earn income from property (an apartment building, for instance) may be deducted in calculating his income.

This measure recognizes that certain expenses are necessary to earn income and is intended to ensure that only a taxpayer's real economic gain is taxed.

However, in view of the element of personal consumption inherent in such expenses, the portion of such expenses that can be deducted is limited to 50%. In addition, entertainment expenses otherwise deductible incurred in a taxation year ending after June 12, 2003 and before March 31, 2004 are capped at an amount equal to 1% of a taxpayer's annual sales. For a taxation year ending after March 30, 2004, the cap depends on the taxpayer's annual sales and amounts to 2%, $650 or 1.25%, as the case may be.

Nonetheless, some expenses have been exempted from the 50% limit and the cap, namely those relating to the cost of a subscription or the purchase of a block of tickets for concerts by a symphony orchestra or a classical music or jazz ensemble, opera, dance or vocal performances, plays, different types of performing arts and museum exhibitions, provided that these cultural events take place in Québec.

☐ DEDUCTION FOR TAX ON FOREST OPERATIONS (1972)

The tax on forest operations is 10% of the income from forest operations.

This tax does not raise the tax burden on the taxpayer since it can be deducted from income tax in both the federal and Québec tax systems.

The Québec deduction is ⅓ of the tax on forest operations, while the federal government allows a deduction of ⅔ of such tax.

This deduction is designed to maintain the taxpayer's overall tax charge unchanged and constitutes a mechanism for transferring tax receipts (through the federal deduction) in a sector of provincial jurisdiction (natural resources).

☐ DEDUCTION FOR INVESTMENT CORPORATIONS (1972)

Briefly, an investment corporation is a Canadian public corporation at least 80% of whose assets consist of shares, bonds, negotiable securities or cash and at least 95% of whose income is derived from investment in such securities.

An investment corporation may elect that the dividends it pays to its shareholders constitute a capital gain for them.

Consequently, investment corporations can claim a deduction in calculating their taxable income equal to the amount of their taxed capital gains, i.e., briefly, the excess of their taxable capital gains for one year over their allowable capital losses for such year.

It should be noted that at the federal level, investment corporations enjoy a tax credit equal to 20% of the excess of their taxable income over their taxed capital gains.

The purpose of this deduction is to integrate the direct tax systems of corporations and individuals, the latter being taxed on the investment income of an investment corporation when they receive it in the form of dividends.

☐ EXTRA DEDUCTION FOR INTANGIBLE FIXED ASSETS (1972)

Three quarters of the amounts disbursed by a taxpayer as capital and relating to an intangible asset acquired to earn business income constitute the allowable portion of intangible assets of the taxpayer in relation to such business. An annual deduction of up to 7% of the allowable portion of intangible assets is granted to a taxpayer in calculating his business income. An example of an intangible asset is goodwill acquired when a business is purchased.

Essentially, the tax treatment of intangible assets is the same as the one applied to other fixed assets. The cost of acquisition is accordingly deductible gradually, similar to the situation in the case of tax depreciation.

This treatment of intangible assets can give rise to a positive or negative tax expenditure depending on the difference between the accounting rate of depreciation and the rate of the deduction stipulated in the tax legislation.

This measure, besides recognizing that part of the amounts disbursed as capital in the course of a business is used annually to earn business income, is intended to facilitate matters for taxpayers and the tax authorities regarding the determination of the amount to be considered as such in calculating income.

☐ EXEMPTION OF THE ACTIVE INCOME OF FOREIGN SUBSIDIARIES OF CANADIAN CORPORATIONS (1972)

In general, the tax legislation stipulates that a taxpayer must include in calculating his income any amount he receives as dividends on any shares he owns of the capital stock of a corporation that is not a resident of Canada.

However, in the case where such dividend is received by a corporation that is a resident of Canada on a share of the capital stock of a foreign subsidiary of such corporation, a deduction is granted to the corporation based on the source of the dividend.

Briefly, when the dividend paid constitutes income from an eligible business carried on in a country with which Canada has concluded a tax agreement designed to avoid double taxation, i.e. from the exempt surplus of the foreign subsidiary, the Canadian corporation may deduct the full amount of the dividend in calculating its income. No Québec or Canadian tax is then payable regarding such dividend.

When the dividend paid constitutes a distribution of income from the eligible business carried on in a country with which Canada has not concluded a tax agreement, i.e. from the taxable surplus of the foreign subsidiary, the Canadian corporation can deduct an amount (foreign tax credit) designed to compensate for the fact that tax has been paid abroad on the business income or the dividend. Accordingly, Québec or Canadian tax is payable only if the tax paid abroad is less than 38%, i.e. the basic rate of the federal corporate income tax.

Lastly, when the dividend is paid from surplus prior to the acquisition of the foreign subsidiary, the Canadian corporation can deduct the full amount of the dividend, but must then reduce the tax cost of its shares in the foreign subsidiary. Accordingly, upon disposition of these shares, the gain realized by the Canadian corporation will be greater.

Briefly, a subsidiary is a foreign subsidiary of a taxpayer that is a resident of Canada if such taxpayer has at least a 1% interest in the subsidiary and if the taxpayer and the persons with whom he is related taken together have at least a 10% interest.

The rules relating to dividends paid by foreign subsidiaries are designed to encourage international competitiveness, maintain the integrity of the tax base and eliminate double taxation.

2.2 TAX ON CAPITAL

2.2.1 Five-year tax holiday for new corporations (1986 to 1997)

To encourage the formation of new businesses and recognize the substantial costs involved in setting up a business, a five-year tax holiday was granted for new corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the Health Services Fund (HSF).

For a taxation year beginning after June 30, 1999, such a corporation could deduct an amount of $3 million in calculating its paid-up capital for such year. Lastly, for a taxation year ending after June 12, 2003, the exemption from the tax on capital applies to 75% of the amount of paid-up capital and is calculated on the first $3 million of such paid-up capital.

This deduction applied only to the first five years of operation of the corporation.

The five-year tax holiday was eliminated in the March 30, 2004 Budget Speech. However, a corporation whose first taxation year began before March 30, 2004 can continue to benefit from the tax holiday as previously stipulated.

2.2.2 Tax holiday for international financial centres (1986)

An international financial centre (IFC) is a business or part of a business all of whose activities pertain to international financial transactions.

A corporation or a corporation that is a member of a partnership operating an IFC within the agglomeration of Montréal, enjoys a partial exemption from the tax on capital regarding the portion of its business that constitutes an IFC.

Major changes were made to the IFC regime in the March 30, 2004 Budget Speech. Under these changes, the branch accounting method used until then to determine the IFC portion of an operator's business was replaced, for a fiscal year starting after March 30, 2004, by a formula based on the relative size of revenues and salaries attributable to the qualified international financial transactions (QIFTs) of the operator compared the latter's overall revenues and salaries. In addition, on June 12, 2003, the rate of the exemption from the tax on capital was reduced from 100% to 75% of the amount otherwise determined. This reduced rate is still in effect as at December 31, 2004.

The purpose of this measure is to encourage financial institutions and other organizations in the financial sector to carry out international financial transactions in Montréal.

2.2.3 Tax holiday for corporations carrying out an innovative project in the field of new information and communications technologies in certain designated sites (1997)

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the CDTI's concept was extended to these designated sites.

Briefly, this measure was intended to support companies that undertook to carry out, within these two types of designated sites, innovative projects in the field of new information and communications technologies.

Corporations that carried out an innovative project in one of these two types of designated sites could claim a number of tax benefits.

Among other things, a tax holiday was granted to such corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the HSF.

More specifically, a corporation that carried out an innovative project in one of these various types of designated sites could claim a complete exemption from the tax on capital for its first five years of operation.

Moreover, these fiscal measures regarding corporations that carried out an innovative project in the field of new information and communications technologies were eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from these measures, or were in process of benefiting from them, were protected. Accordingly, these taxpayers can continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to receive these tax benefits.

2.2.4 Tax holiday for corporations carrying out an innovative project in a biotechnology development centre (2001)

The concept of designated sites for carrying out innovative projects, initially introduced in the March 25, 1997 Budget Speech with the creation of CDTIs, was extended to the biotechnology sector in the March 29, 2001 Budget Speech. The first biotechnology development centre was designated in Laval and others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

This measure was designed to support corporations that undertake to carry out an innovative project in a biotechnology development centre.

Corporations that carried out an innovative project in a biotechnology development centre could benefit from the same tax benefits as those that carried out an innovative project in the new information and communications technologies field in certain designated sites.

Among others, a tax holiday was granted to these corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the HSF.

More specifically, a corporation that carried out an innovative project in a biotechnology development centre could benefit from an exemption from the tax on capital for its first five years of operation.

Furthermore, the level of assistance provided by the tax holiday regarding corporations that carry out an innovative project in a biotechnology development centre was reduced, from a full tax holiday (100%) to a partial tax holiday (75%) in the June 12, 2003 Budget Speech. The concept of innovative project and the attendant tax holiday were subsequently eliminated in the March 30, 2004 Budget Speech.

However, the rights of taxpayers who already benefited from this tax holiday relating to the carrying out of an innovative project in a biotechnology development centre, or were in the process of doing so, were protected, whether under the changes announced on June 12, 2003 or those announced on March 30, 2004. Accordingly, these taxpayers can continue to receive the tax assistance initially stipulated in relation to their situation and for the period initially stipulated, subject to certain integrity rules regarding acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

2.2.5 Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

The tax benefits relating to the Mirabel Zone were eliminated in the June 12, 2003 Budget Speech. However, transition rules allow some corporations to continue to receive these tax benefits.

In particular, a corporation that, on June 12, 2003, carried on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, was of particular interest for Québec's economy, can continue to receive, generally until December 31, 2013, an exemption from the tax on capital relating to the portion of the corporation's paid-up capital reasonably attributable to carrying on such eligible business.

Moreover, the administrative responsibilities that had been assumed by the Minister of Finance concerning the tax benefits relating to the Mirabel Zone were transferred to Investissement Québec on March 31, 2004.

2.2.6 *Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal (2000)*

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the urban agglomeration of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, from an exemption from income tax,[20] an exemption from the tax on capital and an exemption from the employer contribution to the HSF[21] in relation to the securities exchange or securities clearing corporation business they carry on within the urban agglomeration of Montréal.

More specifically, regarding the tax on capital, this exemption consists of a deduction, in calculating the paid-up capital of an eligible corporation, determined on the basis of the paid-up capital attributable to activities such corporation carries out as a securities exchange or securities clearing corporation, for a taxation year or portion of a taxation year included in the period starting on October 1, 2000 and ending December 31, 2010.

Moreover, the rate of this deduction was reduced from 100% of paid-up capital attributable to the carrying out of eligible activities to 75% of such paid-up capital in the June 12, 2003 Budget Speech.

These fiscal measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

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[20] This tax expenditure is described in the "Reduced tax rates and exemptions" sub-section.

[21] This tax expenditure is described in the "Health Services Fund" section.

2.2.7 Tax holiday for major investment projects (2000)

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from the employer contribution to the HSF relating to the business carried on following the completion of the major investment project.

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

Concerning the tax on capital more specifically, a corporation can benefit, for the ten-year period beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from tax on capital consisting of a deduction in the calculation of paid-up capital. This deduction generally corresponds to the amount of paid-up capital calculated using the balance sheet of the separate business.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

A moratorium was introduced in the June 12, 2003 Budget Speech regarding this fiscal measure in order to review its effectiveness and utility.

More specifically, this moratorium applies in relation to investment projects for which no written application to obtain this tax holiday was submitted to the ministère des Finances prior to June 12, 2003.

Furthermore, the rights of taxpayers who already enjoyed this tax holiday regarding a major investment project, or were in the process of benefiting from it, were protected regarding their major investment project.

2.2.8 Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in one of Québec's remote resource regions. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, tax on capital and the employer contribution to the HSF.

A corporation's paid-up capital, calculated on a consolidated basis, is used to establish whether a corporation is eligible for the tax holiday. If such paid-up capital is between $20 million and $30 million, it is also used to establish the amount of the tax holiday regarding the tax on capital the corporation may receive for such year.

More specifically, for a taxation year, the tax holiday regarding the tax on capital consists of a deduction corresponding to the amount of paid-up capital if such paid-up capital, calculated on a consolidated basis, does not exceed $20 million. However, regarding a taxation year ending after June 12, 2003, the deduction is equal to 75% of the amount of this paid-up capital.

In addition, the deduction is reduced linearly when paid-up capital of the corporation, calculated on a consolidated basis, is between $20 million and $30 million. No deduction is allowed if paid-up capital, calculated on a consolidated basis, is $30 million or more. Finally, a reduction must be made for corporations whose taxation year includes March 30, 2001, or if the end of the taxation year does not coincide with December 31, 2010.

2.2.9 Exemption of the first $1 million of paid-up capital (2003)

Since 2003, a deduction that now stands at $1 million is allowed in the calculation of the paid-up capital of certain corporations.

However, this deduction does not apply to a financial institution or to a corporation exempt from income tax but subject to payment of the tax on capital.

This deduction has risen gradually since it was introduced. More particularly, this deduction is set at $250 000 for calendar year 2003, $600 000 for calendar year 2004, and $1 000 000 as of calendar year 2005. When the taxation year does not coincide with the calendar year, the maximum deduction must be determined on the basis of the number of days of the taxation year included in each of the two calendar years.

Furthermore, this new deduction is designed to reduce the burden of the tax on capital on small corporations. Accordingly, the application details of this deduction stipulate that this deduction be reduced according to size.

Lastly, the members of a group of associated corporations must share this deduction.

This measure is designed chiefly to reduce the burden of the tax on capital on small corporations.

2.2.10 Deduction of one-third of the paid-up capital of mining corporations (1979)

A mining corporation can reduce its tax on capital otherwise payable by 33 ⅓% provided its gross income for the year is derived from a mineral resource.

This measure is designed to recognize the substantial capital needs of mining corporations.

2.2.11 Rate of 2% for life and health insurance premiums (1972)

For the purposes of the tax on capital, insurance companies are not subject to the same tax base as other companies. Instead of being taxed on paid-up capital, the tax on capital of insurance companies depends on the premiums they collect.

The rate of the tax is 2% when the premium is for a life insurance, health insurance or disability insurance policy, and 3% in other cases.

The decision to raise the rate of the tax to 3% of premiums for property damage was made in 1980, thus granting a tax preference for life and health insurance premiums which remained subject to a rate of 2%.

The tax system stipulates a compensatory contribution on the capital of life insurance companies, similar to the one in effect in Ontario and drawing largely on the federal Part VI tax. This compensatory contribution corresponds to the amount by which 1.25% of the "taxable capital" used in Québec of such a company for a year exceeds the amount of income tax payable under Part I by such company. However, an annual capital exemption is allowed (minimum of $10 million).

2.2.12 Exemption for cooperatives (1972)

Québec's tax legislation generally exempts cooperatives from payment of the tax on capital. The cooperative movement is essentially based on providing users with service at lower cost, and not on enriching those who have invested capital therein.

However, savings and credit unions, which are cooperatives, are subject to the tax on capital. More specifically, a saving and credit union is subject to the rate of a financial institution applicable on its paid-up capital, which paid-up capital corresponds to the total of:

- its permanent shares;
- its long-term liabilities;
- 50% of the value of its tangible assets.

The rate of the tax on capital of a financial institution was 1.28% until December 31, 2002, and was reduced to 1.05% on January 1, 2003. The rate will be gradually reduced, to 0.98% as of January 1, 2007, to 0.72% as of January 1, 2008 and lastly to 0.58% on January 1, 2009.

Moreover, until June 11, 2003, savings and credit unions could claim a basic deduction of $300 000 in calculating their paid-up capital. This basic deduction of $300 000 was eliminated for taxation years ending after June 11, 2003.

2.2.13 Exemption for corporations operating in the agriculture or fisheries sector (1985 and 1995)

Corporations whose chief activities consist in carrying on an agriculture or fishing business can claim a deduction of $400 000 in calculating their paid-up capital for the purposes of determining their tax on capital.

For taxation years ending before January 1, 2003, the tax on capital to be paid by such corporations cannot be less than the minimum of $125. However, in the Budget Speech of November 1, 2001, this minimum $125 amount was eliminated for taxation years ending after December 31, 2002.

The purpose of this deduction is to recognize that, compared with other businesses, agricultural or fishing corporations require a relatively high level of capitalization in relation to the income they generate.

2.2.14 Inactive corporations with assets of less than $5 000 (1979)

A corporation which has not carried on a business during a taxation year and whose assets do not exceed $5 000 is exempt from the tax on capital for such year.

The purpose of this measure is to not demand minimum amounts of tax from corporations whose activities have ceased.

2.2.15 Exemption of government organizations, charities and other non-profit organizations (1972)

Municipalities and other public organizations, registered charities, non-profit organizations and other organizations exempt from income tax are also exempt from payment of the tax on capital.

This is a preferential measure explained by the nature of the activities carried out by such organizations.

2.2.16 Mining corporation yet to reach the production stage (1972)

For taxation years ended before January 1, 2003, a mining corporation that had yet to reach the production stage paid the minimum amount of tax on capital of $250 rather than a tax that depended on its paid-up capital. This minimum $250 amount was eliminated in the November 1, 2001 Budget Speech for taxation years ending after December 31, 2002.

This measure is designed to recognize the cash difficulties of mining corporations developing a deposit without having reached the production stage.

2.2.17 Deduction for the acquisition or conversion of ships (1996 and 1997)

A deduction is allowed in calculating the paid-up capital of a corporation, for the purposes of the tax on capital, based on the acquisition expenses of a ship satisfying certain requirements or the portion of the capital cost of an eligible ship that has been incurred since the beginning of construction. This deduction is allowed for a period including the taxation years during which the ship is under construction, the year it is delivered and the four subsequent years.

The ship must be built in a shipyard in Québec, as part of a project for which the Minister of Economic Development, Innovation and Expert Trade has issued a certificate. The eligible acquisition expenses of a corporation mean, in general, the expense corresponding to the portion of the cost of construction paid by the corporation to the builder since the beginning of construction or, if the corporation builds the ship itself, the portion of the capital cost incurred since the beginning of construction.

Moreover, eligible conversion expenses incurred by a corporation also give rise to a deduction in calculating the corporation's paid-up capital.

This measure is designed to encourage shipbuilding and conversion in Québec.

2.2.18 Deduction regarding certain inventory vehicles (2005)

A deduction is allowed in calculating the paid-up capital of a corporation, for the purposes of the tax on capital, regarding new automobile equipment purchased for resale that it has in inventory. More particularly, a corporation may deduct, in calculating its paid-up capital, an amount corresponding to 50% of the amount shown in its financial statements regarding new automobile equipment purchased for resale that it has in inventory. However, this deduction is granted only to the extent that the source of financing is included in the calculation of paid-up capital, and up to 50% of the amount so included in this regard.

This deduction has applied since January 1, 2005. However, where the taxation year of a corporation includes January 1, 2005, the deduction is allowed in proportion to the number of days of the taxation year that follow December 31, 2004 compared with the number of days in such taxation year.

2.2.19 Holiday from the tax on capital for new investments in certain sectors (1997)

A supplementary deduction of 25% for depreciation as well as a holiday from the tax on capital for new investments in certain sectors were introduced on March 25, 1997.

More specifically, the holiday from the tax on capital consisted of a deduction, in calculating the paid-up capital of a corporation that is not a financial institution, based on the eligible acquisition expenses incurred by it regarding an eligible asset.

A corporation could claim this deduction for eligible acquisition expenses it incurs, in a taxation year, for the taxation year during which such expenses are incurred and for the subsequent taxation year.

Briefly, eligible assets for the purposes of this holiday from the tax on capital were manufacturing or processing equipment, foreign ore processing equipment, computer hardware, buildings used in the course of manufacturing or processing activities, buildings used in the course of processing foreign ore, as well as buildings and equipment used in the course of eligible activities relating to the tourism sector.

This measure, which was designed to encourage investment in Québec, was eliminated, subject to certain transition rules, regarding property acquired after June 12, 2003.

2.2.20 Reduction in the paid-up capital of certain financial institutions (1998)

On March 31, 1998, a deduction was introduced in the calculation of the paid-up capital of certain financial institutions.

More specifically, a bank could deduct, in calculating its paid-up capital for a taxation year, an amount equal to $500 million if its world assets, for the preceding taxation year, were less than $100 billion.

This measure, which applied for taxation years ending after March 31, 1998, was eliminated for taxation years ending after June 11, 2003. However, for a taxation year that includes one of those two dates, the amount of this deduction is calculated in proportion to the number of days of such taxation year following such date in the case of March 31, 1998 and preceding such date in the case of June 11, 2003.

This measure was designed to allow Québec to benefit from the consolidation trend in the banking industry.

2.2.21 Capital tax credit regarding certain investments (2005 and 2006)

In the April 21, 2005 Budget Speech, a capital tax credit was introduced to reduce the capital tax burden on corporations that make certain types of investments. In the March 23, 2006 Budget Speech, this capital tax credit was raised and extended regarding certain investments in the forest sector.

Briefly, this capital tax credit enables a corporation, other than a financial institution, that makes an eligible investment, during a taxation year, to claim a non-refundable capital tax credit for such taxation year, equal to 5% of the amount of such eligible investment (15% since March 24, 2006 in the case of certain investments in the forest sector).

Accordingly, a corporation can receive this capital tax credit, for a taxation year, up to the amount of capital tax otherwise payable by it for such taxation year. Where the capital tax credit exceeds the tax on capital otherwise payable by the corporation for the taxation year, the excess amount can be carried over to subsequent taxation years and applied against the tax on capital otherwise payable by it for such years.

Investments eligible for the base rate of 5% are, subject to certain conditions, manufacturing and processing equipment, i.e. assets of class 43. In addition, these assets must, subject to certain transition rules, be acquired after April 21, 2005 and before January 1, 2008.

Forest-sector investments eligible for the higher rate of 15% are, subject to certain conditions, manufacturing and processing equipment, i.e. assets of class 43, used mainly in sawmill and wood preservation activities, activities involved in the making of veneers, plywood and reconstituted wood products (excluding structural wood products), and activities of pulp, paper and cardboard plants. In addition, these assets must, subject to certain transition rules, be acquired after March 23, 2006 and before January 1, 2010.

This measure is designed to support investment in certain activity sectors by enabling corporations that make them to claim a large reduction of their capital tax burden.

2.3 HEALTH SERVICES FUND

2.3.1 Five-year tax holiday for new corporations (1996)

To encourage the formation of new businesses and recognize the substantial costs involved in setting up a business, a five-year tax holiday was granted to new corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the Health Services Fund (HSF).

More specifically, a new corporation which is a Canadian-controlled private corporation could claim an exemption from the employer contribution to the HSF for wages paid or deemed to be paid during such taxation year up to $700 000, if it qualified as a "new corporation".

However, regarding wages paid or deemed paid after June 12, 2003, the exemption applied to 75% of the wages paid or deemed paid during a taxation year, calculated on the first $700 000 of such wages.

This deduction applied only to the first five years of operation of the corporation.

This five-year tax holiday was eliminated in the March 30, 2004 Budget Speech. However, a corporation whose first taxation year began before March 30, 2004 can continue to benefit from the tax holiday as previously stipulated.

2.3.2 Tax holiday for international financial centres (1986)

An international financial centre (IFC) is a business or part of a business all of whose activities bear on financial transactions of an international nature.

A corporation or a partnership operating an IFC enjoys a 75% deduction of its employer contribution to the HSF for the salaries paid or deemed to be paid to the employees of the business recognized as an IFC. Prior to June 12, 2003, the deduction was equal to 100% of such amount.

These exemptions are designed to encourage the establishment of IFCs in Montréal.

2.3.3 Tax holiday for corporations carrying out an innovative project in the field of new information and communications technologies in certain designated sites (1997)

The concept of designated sites for carrying out innovative projects was introduced in the March 25, 1997 Budget Speech with the creation of information technology development centres (CDTI). New economy centres (CNE) were created in the March 9, 1999 Budget Speech and the CDTI's concept was extended to these designated sites.

Briefly, this measure was designed to support corporations that undertook to carry out innovative projects in the field of new information and communications technologies in these two types of designated sites.

Corporations that carried out an innovative project in one of these two types of designated sites could claim a number of tax benefits.

Among others, a tax holiday was granted to such corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the HSF.

More specifically, a corporation that carried out an innovative project in one of these various types of designated sites could claim a total exemption from the employer contribution to the HSF for its first five years of operation.

These fiscal measures regarding corporations that carried out an innovative project in field of new information and communications technologies were eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from these measures, or were in process of benefiting from them, were protected. Accordingly, these taxpayers may continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

2.3.4 Tax holiday for corporations carrying out an innovative project in a biotechnology development centre (2001)

The concept of designated sites for carrying out innovative projects, initially introduced in the March 25, 1997 Budget Speech with the creation of CDTIs, was extended to the biotechnology sector in the March 29, 2001 Budget Speech. The first biotechnology development centre was designated in Laval and others were subsequently designated elsewhere in Québec. In the case of biotechnology development centres the target field is biotechnology since these sites are dedicated exclusively to this sector.

This measure was designed to support companies that undertook to carry out an innovative project in a biotechnology development centre.

Corporations that carried out an innovative project in a biotechnology development centre could claim the same tax benefits as those that carried out an innovative project in the field of new information and communications technologies in certain designated sites.

Among others, a tax holiday was granted to such corporations. This tax holiday covered the three major corporate tax bases, namely income tax, tax on capital and the employer contribution to the HSF.

More specifically, a corporation that carried out an innovative project in a biotechnology development centre could claim an exemption from the employer contribution to the HSF for its first five years of operation.

The level of assistance provided by the tax holiday regarding corporations that carry out an innovative project in a biotechnology development centre was reduced, from a full tax holiday (100%) to a partial tax holiday (75%) in the June 12, 2003 Budget Speech. The concept of innovative project and the attendant tax holiday were subsequently eliminated in the March 30, 2004 Budget Speech.

However, the rights of taxpayers who already benefited from this tax holiday relating to the carrying out of an innovative project in a biotechnology development centre, or were in the process of doing so, were protected, whether under the changes announced on June 12, 2003 or those announced on March 30, 2004. Accordingly, these taxpayers can continue to receive the tax assistance initially stipulated in relation to their situation and for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

This tax measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

2.3.5 Tax holiday concerning the Montréal Foreign Trade Zone at Mirabel (1999)

The Montréal Foreign Trade Zone at Mirabel (the Mirabel Zone) was created in 1999 to support the location of strategic businesses that will contribute to the development of Mirabel and bolster the role of the greater Montréal region as a hub of international trade.

The tax benefits relating to the Mirabel Zone eliminated in the June 12, 2003 Budget Speech. However, transition rules enable certain corporations to continue to receive these tax benefits.

In particular, a corporation that, on June 12, 2003, carried on, within the Mirabel Zone, an eligible business, i.e. a business in any of the four following sectors, namely international logistics, aircraft maintenance and repair, supplementary professional training in aviation, and light processing, or a business that, in the view of the Minister of Finance, was of particular interest for Québec's economy, continues to enjoy, in general an exemption from the employer contribution to the HSF for wages paid, before January 1, 2014, to the employees of such eligible business who carry out at least 75% of their duties within the Mirabel Zone.

Moreover, all the administrative responsibilities that were assumed by the Minister of Finance concerning the tax benefits relating to the Mirabel Zone were transferred to Investissement Québec effective March 31, 2004.

2.3.6 Tax holiday for eligible corporations under the support for the development of stock exchanges and securities clearing-house corporations in Montréal (2000)

In general, a corporation that, during a taxation year, carries on a securities exchange or a securities clearing corporation business in Québec, runs operations as such in an establishment located within the urban agglomeration of Montréal, and more than half of whose salaries paid to employees of the corporation are paid to employees of an establishment located in Québec, can benefit from tax measures to support the development of stock exchanges and securities clearing-houses.

Briefly, these support measures enable eligible corporations to benefit, until December 31, 2010, exemption from income tax,[22] an exemption from the tax on capital[23] and an exemption from the employer contribution to the HSF in relation to the securities exchange or securities clearing corporation business they carry on within the urban agglomeration of Montréal.

Concerning the exemption from the employer contribution to the HSF more specifically, these support measures consist of an exemption from contributions determined on the basis of salaries paid to employees of the securities exchange or securities clearing corporation carried on within the urban agglomeration of Montréal by the eligible corporation, for a pay period ending after October 1, 2000 and before December 31, 2010.

Moreover, in the June 12, 2003 Budget Speech, the value of this exemption was reduced from an exemption level equal to 100% of salaries paid to employees of the securities exchange or securities clearing corporation, to an exemption level equal to 75%.

These fiscal measures are intended to accelerate the positioning of the Montréal Exchange on the global financial derivatives market and encourage greater access to capital markets for Québec corporations.

2.3.7 Tax holiday for major investment projects (2000)

On March 14, 2000, the government implemented a tax holiday for major investment projects. This tax holiday replaces the rate guarantee mechanism that was to ensure stable tax rates for businesses that undertake major investment projects.

Essentially, the tax holiday enables eligible taxpayers that carry out a major investment project in Québec to benefit, for a period of ten years beginning on the starting date of the operation of the business relating to the major investment project, from an exemption from income tax, an exemption from the tax on capital and an exemption from the employer contribution to the HSF relating to the business carried on following the completion of the major investment project.

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[22] This tax expenditure is described in the "Reduced tax rates and exemptions" sub-section.

[23] This tax expenditure is described in the "Tax on capital" section.

In general, to qualify as a "major investment project", an investment project must be carried out in the primary sector, the manufacturing sector or the propulsive services sector, with the exclusion of placement offices and accounting services. Major investment projects carried out in the traditional tertiary sector, as well as in a sector incidental to it, are also eligible if they consist in building an international resort centre. Furthermore, some criteria must be satisfied within specific timeframes, particularly regarding minimum investment thresholds to be achieved as well as payroll growth. Lastly, to obtain the tax holiday an initial eligibility certificate as well as annual eligibility certificates must be obtained from the Minister of Finance.

In addition, to maintain a direct link between the purpose of the tax holiday and the reason for which it is granted, namely the undertaking of a major investment project by a taxpayer, the tax holiday is granted for an investment project carried out by the taxpayer, i.e., more specifically, as if the activity carried on after the project is completed constitutes the carrying on of a separate business by a separate person.

More particularly concerning the exemption from the employer contribution to the HSF relating to the business carried on following the completion of the major investment project, such exemption applies regarding the wages paid for a pay period ending during the ten-year tax holiday period.

This tax holiday is designed to further encourage companies to undertake major investment projects in Québec.

A moratorium was introduced in the June 12, 2003 Budget Speech regarding this tax holiday to review its utility and effectiveness.

More specifically, this moratorium applies in relation to investment projects for which no written application to obtain this tax holiday was submitted to the ministère des Finances prior to June 12, 2003.

However, the rights of taxpayers who already enjoyed this tax holiday regarding a major investment project, or were in the process of benefiting from it, were protected regarding their major investment project.

2.3.8 Ten-year tax holiday for manufacturing SMEs in remote resource regions (2001)

A ten-year tax holiday is granted to eligible corporations that carry on a manufacturing or processing business in one of Québec's remote resource regions. This tax holiday, which applies from March 30, 2001 to December 31, 2010, covers the same tax bases as the five-year tax holiday for new corporations, namely income tax, tax on capital and the employer contribution to the HSF.

The paid-up capital of a corporation, calculated on a consolidated basis, is used to establish whether a corporation is eligible for the tax holiday. When paid-up capital is between $20 million and $30 million, it is also used to establish the amount of the tax holiday regarding the employer contribution to the HSF the corporation can claim for such year.

More particularly, for a taxation year, the tax holiday regarding the employer contribution to the HSF applies, for a given taxation year, to all the wages paid or deemed paid by an eligible corporation during such given taxation year if paid-up capital, calculated on a consolidated basis, is no greater than $20 million. However, regarding wages paid or deemed paid after June 12, 2003, the tax holiday relating to the employer contribution to the HSF, for a taxation year, applies to 75% of wages paid or deemed paid during such given taxation year.

Similarly, the exemption regarding the employer contribution to the HSF applicable to pay periods ending in a taxation year reduces linearly if the paid-up capital of an eligible corporation applicable for a given taxation year is greater than $20 million but less than $30 million. No exemption is allowed if paid-up capital calculated on a consolidated basis, is 30 million or more.

Furthermore, if an eligible corporation's taxation year includes March 30, 2001, the exemption only covers wages paid or deemed paid as of the pay period that includes March 30, 2001. Lastly, the exemption an eligible corporation may claim, for its taxation year that includes December 31, 2010 must be reduced to reflect solely the wages paid or deemed paid until the last pay period preceding January 1, 2011.

2.3.9 Refundable credit of the employer contribution to the HSF for corporations located in E-Commerce Place (2002)

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that moved into E-Commerce Place could receive, for a ten-year period beginning no earlier than May 12, 2000 and ending no later than December 31, 2013, tax assistance with respect to eligible salaries they incur and pay to eligible employees to carry out eligible activities.

Initially, this tax assistance consisted of a refundable tax credit. However, in the Supplement to the Government's Budgetary Policy of March 19, 2002, an election was introduced allowing an eligible corporation to elect to claim either the refundable tax credit or a refundable credit of the employer contribution to the HSF. The election was possible regarding taxation years of an eligible corporation ending after March 19, 2002.

The rate of this tax assistance consisting of a refundable credit of the employer contribution to the HSF was generally 35% but could be reduced beginning in the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation had not created a minimum number of jobs in Québec.

Furthermore, the amount of such tax assistance an eligible corporation could receive, for a taxation year, regarding the eligible salary paid to an eligible employee for such year was limited, however, to $12 500 per eligible employee. Accordingly, for the purposes of this tax assistance, the eligible salary of an eligible employee was limited to $35 714, calculated on an annual basis.

Lastly, this fiscal measure regarding corporations that carried out eligible activities in E-Commerce Place was eliminated in the June 12, 2003 Budget Speech. However, the rights of taxpayers who already benefited from these measures, or were in process of benefiting from them, were protected. Accordingly, these taxpayers can continue to obtain tax assistance for the period initially stipulated, subject to certain integrity rules relating to acquisitions of control.

This measure is the responsibility of Investissement Québec. This organization ensures the attainment of the objectives pursued by the government and issues the eligibility certificates needed to claim these tax benefits.

This tax assistance was designed to support job creation in the field of e-commerce operations.

3. TAX EXPENDITURES RELATED TO THE CONSUMPTION TAX SYSTEM

3.1 QUÉBEC SALES TAX (1992)

3.1.1 Zero-rated property and services

❑ **BASIC GROCERIES**

Basic groceries, which include most foodstuffs meant to be prepared and eaten at home, are not subject to the Québec sales tax (QST). However, the QST does apply to certain products such as softdrinks, candy and other confectionery, snacks, and alcoholic beverages. A similar measure, introduced in 1940, also existed under the former retail sales tax system.

This exemption was meant to take into account the negative consequences of a tax on basic foodstuffs for low-income taxpayers and the general opinion expressed by taxpayers that basic foodstuffs should not be taxed.

❑ **PRESCRIPTION DRUGS**

Controlled drugs that may only be obtained by prescription and other drugs prescribed by a physician or a dentist are not subject to the QST. However, this exemption does not apply to labelled drugs or drugs supplied for veterinary use.

This exemption was included because prescription drugs associated with health care are considered an essential need. Taxation of such drugs would have negative consequences on low-income taxpayers.

Under a measure introduced in 1940, the former retail sales tax system also exempted drugs prescribed by a physician.

❑ **MEDICAL DEVICES**

A wide range of medical devices are not subject to the QST, in particular canes, crutches, wheelchairs, artificial limbs and orthopaedic supports, medical and surgical prostheses, hospital beds, artificial breathing devices, hearing and speaking aids, corrective glasses and contact lenses supplied or intended to be supplied by prescription, various products for diabetics, and certain devices designed specially for the blind and the hearing and speech impaired. Replacement parts and the installation and repair costs for these devices are also exempt.

This exemption was provided because medical devices associated with health care are considered essential needs for disabled persons, who must assume these special expenses in order to live in society and hold employment.

It should be noted that certain medical devices were also exempt from the former retail sales tax system starting in 1944, but not as many.

☐ CHILDREN'S DIAPERS AND ITEMS USED TO BREAST-FEED OR BOTTLE-FEED INFANTS

Since March 31, 2004, the QST no longer applies to diapers and training pants designed especially for children, as well as to items used for breast-feeding and bottle-feeding.

This measure is intented to further support the family by providing specific assistance to parents of young children.

☐ BOOKS

In general, books are not subject to the QST. In 1940, a similar exemption was introduced under the former retail sales tax system.

This measure is intended to encourage the book publishing industry, which is at the heart of Québec's specific identity, and to maintain access to this cultural product for all taxpayers.

☐ FINANCIAL SERVICES

The QST system, like the goods and services tax (GST) system, provides for a tax exemption in respect of most financial services, including, in particular, financial intermediation, market intermediation and risk-pooling services.

This measure was provided because of the problems posed by the application of a sales tax on financial services. Given the structure of this sector, the price of services offered is often implicit and is reflected, for example, in the difference between the interest rate demanded of borrowers and the yield granted depositors, insured parties and annuitants. Although it is theoretically possible to establish these implicit prices, the operation is extremely complex in practice and, as a result, no country has succeeded in effectively applying a sales tax on financial services.

Unlike the GST system, the QST system grants the suppliers of financial services a refund on the QST paid in respect of their purchases of property and services (inputs).

This refund is intended to maintain the competitiveness of Québec's financial institutions and to keep these institutions from acquiring property and services or carrying on certain activities (legal services, computer services, etc.) outside the province because of the increase in costs arising from the application of the QST.

However, in order to maintain neutrality toward other economic sectors and take into account the cost to the government of this refund, financial institutions are subject to a compensatory tax that is intended to hold their overall tax burden constant in relation to what it was prior to the reform of the QST.

3.1.2 Exempt property and services

❑ RENTAL ACCOMMODATION

The QST does not apply to long-term rental accommodation (at least one month) or to short-term accommodation (less than one month) the cost of which does not exceed $20 per day (this provision covers certain temporary lodgings in boarding houses).

This exemption was provided because housing is considered to be an essential need that is a major element of household consumption. The taxation of rental accommodation would have serious negative consequences for low-income taxpayers.

❑ SALES OF USED RESIDENTIAL BUILDINGS OR PERSONAL USE BUILDINGS

The sale of used residential buildings or personal use buildings is not usually subject to the QST (for example, a house occupied by the owner, an apartment building or a cottage). However, this exemption does not apply to commercial buildings or to those sold as part of a business.

This exemption is intended to avoid QST cascading, which would be contrary to the basic principle of a value-added tax. The exemption also ensures access to home ownership for many households.

❑ HEALTH CARE SERVICES

The QST does not apply to health care services, which include:

- services provided in a health care institution;
- services provided by certain health practitioners whose profession is governed by the government in at least five provinces, in particular, physicians, dentists, audiologists, occupational therapists, and optometrists;
- services covered by a provincial health insurance plan.

Health care services are exempt because they are considered to be essential services to which all taxpayers must have access. The taxation of such services would have negative consequences for low-income taxpayers. Moreover, the province bears most health care costs.

☐ EDUCATIONAL SERVICES

Most educational services are exempt from the QST. The exemption applies to the tuition fees paid in respect of courses offered mainly to elementary and secondary school students, credit courses leading to a diploma or certificate granted by a recognized school authority, college or university, and certain other types of vocational training. Moreover, the exemption applies to meals supplied to elementary and secondary school students and most of the meal plans available in colleges and universities.

Educational services are exempt because they are considered to be essential services to which all taxpayers must have access.

☐ CHILD CARE AND PERSONAL CARE SERVICES

The QST does not apply to the following services:

- child care services offered for a period normally less than 24 hours to children 14 years of age or under (private or public day care centres, nursery schools, kindergartens, day camps, etc.);
- personal care services that consist of providing care, supervision and a place of residence to children or disabled or underprivileged persons in an establishment operated for this purpose (reception centres, children's aid societies, etc.).

Child care and personal care services are exempt because they are considered to be essential services.

☐ STANDARD MUNICIPAL SERVICES

Municipal services pertaining to the establishment and maintenance of municipal infrastructure and which are integral to the role of local authorities are exempt from the QST. These are standard residential services supplied by the municipalities that property owners may not refuse, such as garbage collection, police and fire protection services, waterworks and sewage systems, and road construction.

These services, which are usually financed by the municipality's general revenues (tax accounts), are exempt because they are considered to be essential services that benefit the entire community.

☐ MUNICIPAL TRANSIT SERVICES

The QST does not apply to municipal transit services when they are provided by a body operated or funded by the government, a municipality or a school authority and when at least 90% of the services provided by the body consist in providing public transportation in a municipality and its surroundings.

Municipal transit services are exempt because they are considered to be essential services to which the entire community must have access.

☐ SUPPLIES BY CHARITIES AND NON-PROFIT ORGANIZATIONS

Most supplies made by charities are not subject to the QST. The same is true of a certain number of supplies made by non-profit organizations, including supplies made for no consideration, supplies of food, beverages and lodging to alleviate poverty, suffering or distress, supplies of meals on wheels, supplies of recreational services for disadvantaged or handicapped persons and supplies of membership dues to an organization conferring no significant benefit on its members.

These supplies are exempted to reflect the non-commercial character of the activities of these organizations that generally play a public service role in Québec society.

☐ FERRIES, AND ROAD AND BRIDGE TOLLS

Ferry services between parts of a road system separated by a stretch of water and the tolls paid to have the right to use a road or a bridge are not subject to the QST.

These exemptions were provided because the right to use the road system is considered to be an essential service to which society as a whole must have access.

3.1.3 Tax rebates

☐ REBATES GRANTED TO PUBLIC SERVICE BODIES

— Charities and certain non-profit organizations

Charities and non-profit organizations funded at least 40% by a government or municipality may obtain a 50% rebate of the QST paid on their purchases.

This rebate, which is granted in order to take into account the important role played by such organizations in Québec society, is intended to appreciably reduce the additional tax that the introduction of the QST would have levied on charitable and non-profit activities benefiting from public support.

— Schools, colleges, universities, hospitals and municipalities

To ensure that non-profit schools, colleges and universities and hospitals and municipalities do not assume a greater tax burden because of the reform of the QST, a partial rebate of the tax paid by these organizations on their purchases was introduced on July 1, 1992.

The partial rebate available to hospitals has been allowed, since January 1, 2005, to charities and to non-profit organizations funded at least 40% by a government or municipality, that supply health care services similar to those usually supplied by hospitals, but only regarding their purchases in relation to providing such services.

The rebate rate for non-profit schools, colleges and universities was initially set at 30%, and was raised to 47% on May 10, 1995.

The rebate rate for hospitals was raised from 19% to 70% on May 10, 1995, then reduced to 66% on April 1, 1997, to 60% on April 1, 2000, to 55% on April 1, 2003 and to 51.5% on April 1, 2006.

Finally, the rebate rate for municipalities was raised from 40% to 43% on May 10, 1995. The rebate was completely eliminated on January 1, 1997.

☐ REBATE GRANTED TO PURCHASERS OF NEW RESIDENTIAL HOUSING

Purchasers of new housing are entitled to a partial rebate of the QST paid on the home if they occupy it as their primary residence. In the case of homes costing $200 000 or less ($175 000 prior to March 15, 2000), 36% of the total QST paid is refunded. The rebate decreases gradually for homes priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 607 ($5 642 prior to July 1, 2006, $4 937 prior to March 15, 2000 and $4 278 prior to January 1, 1998).

The rebate was implemented on May 13, 1994 and was designed to ensure access to home ownership for most households and to ensure that the QST has only a negligible impact on the price of new housing.

☐ REBATE GRANTED TO LESSORS OF NEW RESIDENTIAL PROPERTY

Like purchasers of new residential housing, purchasers and builders of new residential rental property are entitled to a partial rebate of the QST paid on new residential units to be rented for a period of at least 12 months. This rebate is in fact similar to the rebate for new residential housing, in that 36% of the total QST paid is refunded in the case of rental units priced $200 000 or less ($175 000 prior to March 15, 2000), and in that the rebate gradually decreases for units priced between $200 000 and $225 000 (between $175 000 and $200 000 prior to March 15, 2000). The maximum rebate is on the order of $5 607 ($5 642 prior to July 1, 2006 and $4 937 prior to March 15, 2000).

The rebate was implemented on February 28, 2000, and was designed to reduce a portion of the QST payable at the outset by purchasers and builders of new residential rental property. As a result of the rebate, purchasers and builders of such property can take advantage of the rate available to purchasers of owner-occupied residential buildings.

☐ REBATE GRANTED TO FOREIGN TOURISTS

Prior to October 1, 2000, foreign tourists visiting Québec were entitled to a rebate of the QST paid on most property acquired for use primarily outside the province.

Prior to November 1, 2001, they were entitled to a rebate of the QST paid on short-term accommodation services (less than one month).

The revenue from the elimination of these measures, which was to be used to promote the development of the tourism industry, is instead funnelled directly to Tourisme-Québec to bolster the promotion and development of Québec tourism internationally.

☐ REBATE PROVIDED FOR AUTOMATIC DOOR OPENERS FOR THE USE OF DISABLED PERSONS

The purchaser of an automatic door opener and the related installation service is entitled to a rebate of the QST paid in this respect when the door opener is acquired for the use of a person who, because of a physical disability, is unable to enter his residence without assistance.

This rebate was introduced on March 10, 1999 so that automatic door openers benefit from tax treatment similar to that applied to other medical devices, which are considered to satisfy the essential needs of disabled persons.

☐ REBATE REGARDING CERTAIN HYBRID VEHICLES

A person who purchases or takes out a long term lease on a new hybrid vehicle, whose fuel consumption does not exceed, on the highway or in the city, 6 litres per 100 kilometres, is entitled to a rebate of the QST paid in respect of the sale or lease of the vehicle, up to a maximum of $1 000.

This partial QST rebate, applicable to purchases or long-term leases of new hybrid vehicles during the period beginning March 24, 2006 and ending December 31, 2008, was granted to promote the use of such fuel-efficient vehicles that can reduce polluting emissions and help to cut greenhouse gases.

3.1.4 Measures to facilitate QST administration

☐ EXCLUSION OF SMALL SUPPLIERS FROM THE FIELD OF APPLICATION OF THE QST

Small suppliers, i.e. businesses whose sales do not exceed $30 000 in a given year ($50 000 since April 23, 1996 in the case of businesses that are public service bodies), are not required to register for the QST system and do not have to collect the tax on their sales, except the sale of real properties. However, unlike other businesses, they may not claim a refund of the QST paid in respect of property and services acquired for their commercial activities (inputs). In fact, small suppliers have the choice of operating their activities outside the field of application of the QST.

This measure was introduced on July 1, 1992 with regard to the suppliers of services and was amended on August 1, 1995 to also cover the suppliers of tangible personal property. It was adopted to avoid imposing an overly cumbersome administrative burden for small businesses, given their low tax remittances.

☐ SIMPLIFIED ACCOUNTING METHODS

— Simplified method for charities

Most charities that are registrants for the application of the QST system must use the simplified method to account for the tax, which avoids their having to break down their purchases (inputs) in light of their use in the making of taxable or exempted supplies. Generally speaking, this method enables them to remit only 60% of the tax collected on their taxable sales, other than their sales of capital and real properties. On the other hand, they may generally obtain a rebate of only 50% of the tax paid on their purchases (inputs) other than their purchases of real and capital properties, regardless of whether these purchases pertain to the making of taxable or exempted supplies.

This method, which was introduced on January 1, 1997, was designed to simplify the administration of the QST for charities.

— Quick method for small businesses

Small businesses whose annual receipts from taxable sales are not more than $215 000 may use a quick method to account for the QST. This method allows them to pay QST equal to a fixed percentage of their taxable sales, determined according to the type of business they operate, rather than to establish the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted. The percentage of the payment is therefore low for businesses with low added value, such as the retail sector (2.7% since January 1, 1998 and 2.3% prior to that date), but higher for other businesses (5.3% since January 1, 1998 and 4.6% prior to that date).

This method was introduced on August 1, 1995 and was intended to simplify the administration of the QST for small businesses.

— Quick method for qualifying public service bodies

Qualifying public service bodies (non-profit organizations funded at least 40% by a government or a municipality, municipalities, hospitals and non-profit schools, colleges and universities) may use a quick method to account for the QST. This method allows them to pay an amount of tax equivalent to a fixed percentage (since January 1, 1998, 4.6% for municipalities and 5.9% for other bodies, as against 5% prior to that date for all bodies) of their taxable receipts instead of establishing the QST collected on each of their sales and the QST paid on most of their purchases (inputs). The payment of a percentage of taxable receipts makes it possible to obtain a result equivalent to an estimate of the net QST to be remitted.

This method was introduced on July 1, 1992 and was designed to simplify the administration of the QST for qualifying public service bodies.

— Simplified calculation methods of ITRs and partial QST rebates

Small businesses and qualifying public service bodies which, during the preceding fiscal year, had receipts from taxable sales of no more than $500 000 and made purchases of no more than $2 000 000 may use, respectively, the simplified calculation method of input tax refunds (ITRs) or the simplified calculation method of partial QST rebates in order to determine the ITRs or the partial rebates to which they are entitled. These methods allow them to calculate their ITRs or their partial QST rebates by multiplying the total of their purchases entitling them to such rebates by a factor of 7.5/107.5 (6.5/106.5 prior to January 1, 1998) and, in the case of public service bodies, by also multiplying the total by the partial QST rebate rate applicable to them. Thus, they do not have to determine the amount of the QST paid on each of their purchases (inputs). These methods do not modify the way by which small businesses and public service bodies bill or collect the QST or the manner in which they declare the QST collected.

These methods were introduced into the QST system on August 1, 1995 and were intended to simplify the calculation by small businesses of ITRs and by qualifying public service bodies of partial QST rebates.

3.1.5 Other tax expenditures

☐ NON-TAXABLE IMPORTS

Certain property brought into Québec is not subject to the QST, notably property whose price does not exceed $20 that is sent from outside Canada to Québec residents, property purchased by a Quebecer during a stay of at least seven days outside Canada if the value of such property does not exceed a certain limit, now set at $750, and the personal effects of an individual arriving in Québec to take up permanent residence.

These exemptions were provided to simplify the administration of the QST.

☐ EXEMPTION GRANTED TO THE SOCIÉTÉ SAINT-JEAN-BAPTISTE DE MONTRÉAL

The Société Saint-Jean-Baptiste de Montréal and the separate civil entities formed by it (Fondation Langelier, Fondation Du Prêt d'Honneur and Comité de la Fête Nationale de la Saint-Jean Inc.) are not subject to the QST in accordance with a provision of the *Loi refondant la charte de l'Association Saint-Jean-Baptiste de Montréal*, which stipulates that these entities are exempt from all provincial taxes.

This exemption, which was introduced in 1912, is granted because the Société Saint-Jean-Baptiste de Montréal is considered to be a public utility.

3.1.6 Tax measures shown for information purposes

☐ ENTERTAINMENT EXPENSES

The QST system allows small or medium-size businesses to claim a refund of the QST paid in respect of property and services acquired in the course of their commercial activities (inputs). However, such businesses may generally recover only 50% of meals and entertainment expenses (large businesses are not entitled to a refund of the QST paid in this regard) given the element of personal consumption inherent in such expenses.

In addition, meal and entertainment expenses eligible for the purposes of calculating this refund that were incurred in a taxation year ending after June 12, 2003 and before March 31, 2004, are subject to a cap corresponding to 1% of the annual sales of the business. For a taxation year ending after March 30, 2004, the cap depends on the annual sales of the business and amounts to 2%, $650 or 1.25% as the case may be.

However, certain expenses are exempted from the application of the 50% limit and the above-mentioned cap, i.e. the cost of a subscription or block purchases of tickets for symphony concerts or the concerts of classical or jazz groups, opera performances, dance or vocal performances, or plays, provided that the cultural events take place in Québec.

☐ REBATE GRANTED TO EMPLOYEES AND PARTNERS

Under the QST system, the employee of a business is entitled to a rebate of the QST paid in respect of expenses deducted in the calculation of his employment income for income tax purposes. Similarly, an individual who is a partner in a partnership is entitled to a rebate of the QST paid in respect of the expenses incurred outside of the partnership and which are deducted in the calculation of his income derived from the partnership.

3.2 TAX ON INSURANCE PREMIUMS

3.2.1 Exemption with respect to an individual policy of insurance of persons

The 9% tax on insurance premiums does not apply to individual life insurance premiums and to individual insurance against sickness or accident premiums. This exemption was introduced on December 19, 1985.

3.2.2 Reduction in the tax rate for automobile insurance

The regular rate of the tax on insurance premiums (9%) was reduced on May 1, 1987 by four percentage points in respect of automobile insurance premiums. However, this reduction does not apply to the amounts payable to the Société de l'assurance automobile du Québec.

3.2.3 Exemption with respect to certain compulsory insurance plans

The tax on insurance premiums does not apply to amounts paid under the following laws:

- the *Act respecting industrial accidents and occupational diseases*;
- the *Crop Insurance Act*;
- the *Act respecting farm income stabilization insurance*;
- the *Act respecting the Régie de l'assurance maladie du Québec*;

- the *Act respecting the Québec Pension Plan*;
- the *Employment Insurance Act*.

This measure was implemented on April 24, 1985 and was adopted to avoid subjecting most insurance plans of a social nature that were compulsory under specific laws.

3.3 FUEL TAX

3.3.1 Reduction in the rate of the tax in certain regions

☐ BORDER REGIONS

Since January 15, 1982, a reduction in the regular rate of the tax on gasoline, now set at 15.2 cents per litre, has been granted on gasoline sold in regions bordering on an American state or a Canadian province. The reduction granted, which is established according to a maximum distance of 20 km from the border, ranges from 2 to 8 cents per litre in regions bordering on the United States and from 1 to 4 cents per litre in regions bordering on Ontario. This last reduction was also granted in regions bordering on New Brunswick and Labrador prior to its elimination on November 1, 2003 (until May 31, 1997, the reduction granted in regions bordering on New Brunswick and Labrador ranged from 2 to 8 cents per litre).

This reduction is intended to maintain the competitive position of Québec retailers situated near the border in relation to their competitors located in jurisdictions bordering on Québec.

☐ REMOTE REGIONS

Since December 19, 1985, a reduction in the regular rate of the fuel tax, which is now 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil, has been granted on fuel sold in regions far from major urban centres. This reduction applies essentially to peripheral regions, which designates genuinely remote territories, and specified regions, which are actually buffer zones between the peripheral regions and regions that do not benefit from a reduction in the fuel tax. The reduction granted is 4.65 cents per litre of gasoline and 3.82 cents per litre of fuel oil in peripheral regions (6.65 cents per litre of gasoline and 5.82 cents per litre of fuel oil prior to July 1, 1995), and 2.3 cents per litre of gasoline and 1.9 cents per litre of fuel oil in specified regions (3.3 cents per litre of gasoline and 2.9 cents per litre of fuel oil prior to July 1, 1995).

This measure was intended to reduce the price of fuel, which is generally higher in regions that are far from major urban centres, because of transportation costs.

3.3.2 Reduction in the rate of the tax for aircraft and railroad locomotives

A reduction in the fuel tax rate has been granted in respect of aircraft since 1972 and railroad locomotives since 1980. The regular rate of the tax of 15.2 cents per litre of gasoline and 16.2 cents per litre of fuel oil is reduced to 3 cents per litre when the fuel is purchased to supply aircraft or railroad locomotive engines.

This reduction is intended to avoid the shifting of economic activity.

3.3.3 Exemptions and refunds granted to farmers and fishers

Persons whose main occupation is farming or fishing (or the processing and the marketing of fish) are exempt from the tax or are entitled to a tax refund in respect of fuel oil or gasoline used to supply, as the case may be, farm machinery (except an automobile or truck) or fishing boat engines, to the extent that the equipment has been used for farm work or fishing.

These measures, introduced in 1935 (refunds relating to gasoline) and in 1972 (exemptions pertaining to fuel oil), were designed to foster economic development and bolster the competitive position of Québec businesses operating in the farming and fishing sectors by reducing their production costs.

3.3.4 Exemptions and refunds granted to the industrial sector

Under the modifications made to the fuel tax system in 1935 and 1972, the industrial sector benefits from relief as regards the fuel used in certain activities:

- the tax does not apply to solvents derived from petroleum or to gasoline intended for chemical uses;
- the tax paid is refunded in respect of gasoline, bunker fuel or crude oil used to supply a non-propulsion (stationary) engine and gasoline used for the purpose of scientific research, experimentation or demonstration (except the supply of propulsion engines).

These measures are intended to foster economic development and enhance the competitive position of the Québec industrial sector.

3.3.5 Exemption and refund granted to the aviation sector

The fuel tax system provides for relief with respect to fuel used in certain airline activities. Under these fiscal measures:

- since June 20, 1983, the tax has not applied to aviation fuel used on an international flight;
- the tax paid on gasoline used to supply an aircraft engine while being tested on the ground or in the air has been refunded since 1980 (prior to 1980, the tax was not refunded but the rate of the tax was reduced).

These measures are intended to avoid the shifting of economic activities.

3.3.6 Exemption for commercial vessels

The fuel tax does not apply to bunker fuel or crude oil used to supply the engine of a commercial vessel.

This measure was implemented in 1972 and is intended to foster economic development and enhance the competitive position of businesses operating commercial vessels by reducing their production costs. It also makes it possible to avoid shifting the economic activities of these businesses.

3.3.7 Exemption for propane gas

Since March 26, 1997, the fuel tax has not applied to propane gas.

This exemption is intended to encourage the conversion of road vehicles to this clean fuel, consolidate the propane gas distribution network and help maintain and create jobs.

3.3.8 Refund granted to farm, forest and mining businesses

Since April 19, 1978, farm, forest and mining businesses have been entitled to a refund of the tax paid on fuel used to operate road vehicles registered for off the road use and used in their operations.

This measure is intended to foster economic development and enhance the competitive position of the Québec farming, mining and forest industries by reducing their production costs.

3.3.9 Refund granted to public carriers

Public carriers can obtain a refund of the tax paid on fuel used to supply the engines of buses used for public transit, other than school, chartered or airport transportation, or buses used to transport groups of people for activities shared by these people.

Introduced in January 1984 at a rate of 33 ⅓%, this refund was raised to 100% on March 24, 2006 (April 22, 2005 in the case of biodiesel fuel). This measure is designed to support public transit, which is a public service that satisfies the daily transportation needs of a considerable number of people, while reducing traffic congestion on road systems, especially in urban centres, and contributing to a healthier environment.

3.3.10 Refund regarding biodiesel fuel

To foster the use of biodiesel fuel, a renewable fuel can reduce polluting emissions and help to cut greenhouse gases, a refund of the tax paid on this fuel has been allowed for public carriers since April 22, 2005 (see prior measure) and for other consumers since March 24, 2006. In the latter case, entitlement to the refund is conditional on the fact that the biodiesel fuel is not mixed with other types of fuel at the time of its acquisition by consumers.

3.3.11 Refund regarding fuel used to supply an engine for stationary purposes of the equipment of a vehicle

Since July 1, 1999, the fuel tax system provides for a refund of the tax paid regarding gasoline or fuel oil used to supply the propulsion engine of a motor vehicle, but only on the portion of such fuel required to activate a stationary equipment of the vehicle by means of a power take-off, provided such equipment is used for commercial or public purposes.

In order to facilitate the administration of the measure, ensure a degree of uniformity in its application and prevent possible abuse in this regard, the quantity of fuel used for stationary purposes of the vehicle's equipment is established using prescribed percentages.

The granting of this refund is in line with the underlying principle of the fuel tax system, which is aimed essentially at taxing products used to supply propulsion engines.

3.4 TAX ON ALCOHOLIC BEVERAGES

3.4.1 Reduction in rates of the specific tax regarding beer sold by microbreweries

A reduction in the rates of the specific tax applicable to beer is granted in respect of products sold by microbreweries producing beer in Québec. The rates of the specific tax are reduced by 67% (50% prior to March 15, 2000) on the first 75 000 hectolitres of beer sold in a calendar year (25 000 hectolitres prior to January 1, 2002) and by 33% (25% prior to March 15, 2000) on the next 75 000 hectolitres (50 000 hectolitres prior to March 15, 2000 and 125 000 hectolitres prior to January 1, 2002).

These rates correspond to 0.0132 cent per millilitre and 0.0268 cent per millilitre, respectively in the case of beer intended for consumption other than in an establishment, and to 0.0214 cent per millilitre and 0.0435 cent per millilitre respectively in the case of beer intended for consumption in an establishment.

This reduction, which was implemented on May 10, 1995, is intended to improve the competitive capacity of small beer producers.

3.4.2 Reduction in rates of the specific tax regarding alcoholic beverages sold by small-scale producers

A reduction in the rates of the specific tax is allowed regarding alcoholic beverages, other than beer, sold by small-scale producers that produce such beverages in Québec. Accordingly, since April 1, 1998, rates have been reduced from 100% on the first 1 500 hectolitres of beverages sold in a calendar year (50% on the first 1 000 hectolitres and 25% on the next 500 hectolitres for the period from March 26, 1997 to March 31, 1998) and, since March 24, 2006, they have been reduced by 50% on the next 1 500 hectolitres.

This reduction is intended to improve the competitive capacity of small producers of wine, cider and any other alcoholic beverage and grant them tax treatment similar to that accorded small beer producers since May 10, 1995.

Part II

List of tables

Table 1 Tax credit relating to the flat amount 1
Table 2 Deductions replaced by the flat amount 2
Table 3 Non-refundable tax credits replaced by the flat amount 3
Table 4 Index used to index the parameters of the income tax system 4
Table 5 Tax parameters subject to automatic indexation 5
Table 6 Parameters used to determine the tax credit for persons living alone 8
Table 7 Parameters used to determine the tax credit respecting dependent children 11
Table 8 Parameters used to determine the tax credit respecting other dependants 12
Table 9 Maximum amount of the child assistance payment 13
Table 10 Minimum amount of the child assistance payment 14
Table 11 Parameters used to determine the maximum work premium for 2005 16
Table 12 Parameters used to determine the property tax refund 23
Table 13 Maximum amount of the tax credit for the QST 24
Table 14 Parameters used to determine the refundable tax credit for natural caregivers 71
Table 15 Parameters used to determine the refundable tax credit for individuals living in a northern village 74
Table 16 Maximum amount of the refundable tax credit for top-level athletes 76
Table 17 Parameters used to determine the refundable tax credit for medical expenses 81
Table 18 Parameters used to determine the basic tax credit 95

Index
Tax expenditures related to personal income tax system

A

Accounting
  billing-based 46
  cash 25
  inventory 25
Administrators 34
Adoption 15
Agriculture and fisheries
  accounting for inventory 25
  cash accounting 25
  deferral of capital gains 26
  exemption from paying quarterly instalments 27
  Farm Income Stabilization Account (FISA) 28
  foreign farm workers 29
  lifetime $500 000 capital gains exemption 2, 27, 28
  loss carry-overs 3, 102
  restricted farm losses 3, 101
Alimony 2, 86
Allowances
  emergency services volunteers 35
  new-born children 14
  volunteer firefighters 35
Apprentice mechanics 52
Artists
  arts associations 3, 29
  averaging of income 31
  copyright 2, 31
  deduction 30
  musicians 30
  performer 2, 31
  public lending rights 2, 31
  right to remuneration for private copying 2, 31
  status 30
Arts associations 3, 29
Arts organizations (donations) 29, 90
Attendant (expenses) 99
Averaged income
  artists 31
  forest producers 46
  owners of private woodlots damaged by the ice storm 45
Award 49

B

Bare property of cultural property or works of art (donations) 32, 90, 91
Basic amount 94
Bequests 87
Biotechnology 2, 65
Biotechnology development centre 2, 66
Bursaries, academic or upgrading
  non-taxation 49
  students from a northern village 50
  students suffering from an impairment 49
Businesses
  accounting 25, 46
  artists 30
  attendant's expenses 99
  child care expenses 17
  deferred profit-sharing plan (DPSP) 78
  employment insurance contributions 95
  Farm Income Stabilization Account (FISA) 28
  foreing producers 2, 32
  forest producers 46, 93
  independent financial derivatives traders 2, 63
  market makers 53
  membership fees in an arts associations 3, 29
  moving expenses 3, 89
  parental insurance plan contributions 21, 94, 96
  partnership operating an IFC 2, 63
  professional dues 3, 98
  public transit 34
  Québec Pension Plan contributions 3, 95, 97
  registered pension plan (RPP) 77
  shares of small businesses 2, 45, 46, 48

- support measures for handicapped persons 80, 99
- taxi 92, 93

C

- Canadian Forces personnel serving on a mission 2, 37
- Capital gains
  - cultural property 32
  - currency exchange transactions 41
  - deferral
    - farm assets 26
    - fishing assets 26
    - losses 3, 101, 102
    - reserve 26, 44, 45
    - rollover 26, 43, 44, 46
    - shares of small businesses 45
    - taxation 42
  - donations of the bare property of cultural property 32
  - ecological property 41
  - exemption 2, 27, 28, 48
  - family trusts 47
  - farm assets 2, 26, 27
  - fishing assets 2, 26, 28
  - flow-through shares 2, 57
  - musical instrument 32
  - partial inclusion 40, 41
  - personal-use property 41
  - principal residence 42
  - replacement property 43
  - reserve 26, 44, 45
  - rollover
    - business investments 46
    - farm assets 26
    - fishing assets 26
    - replacement property 43
    - transfer 43
  - securities 40
  - shares of small businesses 2, 45, 46, 48
  - taxation 42
  - transfer between spouses 44
  - transfer to a corporation 43
  - transfer to a partnership 43
- Capital losses 3, 102
- Capital régional et coopératif Desjardins 70
- Carrefour de l'innovation 2, 67
- Carry-over of investment expenses 3, 99
- Carry-over of losses 3, 101, 102
- Centre national des nouvelles technologies de Québec 2, 3, 64, 68
- Child assistance 13
- Child care expenses
  - financial assistance 83
  - refundable tax credit 17
  - Universal Child Care Benefit 97
- Children
  - adoption 15
  - alimony 86
  - allowances for new-born children 14
  - child assistance 13
  - handicapped 13
  - postsecondary studies 10
  - refundable tax credit for adoption expenses 15
  - refundable tax credit for child assistance 13
  - refundable tax credit for child care expenses 17
  - refundable tax credit for the treatment of infertility 15
  - supplement for handicapped children 13
  - support amount 86
  - tax credit for children engaged in vocational training or post-secondary studies 10
  - tax credit for dependent children 9
  - tax credit for the first child in a single-parent family 10
  - tax reduction in respect of families 16
  - transfer of farm or fishing assets 26
  - transfer of shares 26, 45
  - Universal Child Care Benefit (UCCB) 97
  - vocational training 10
- Cité du multimédia 2, 64
- Compensation for the loss of financial support paid under public indemnity plans 84
- Complementary amount 20, 94
- Contributions, membership fees and dues
  - arts associations 3, 29
  - employment insurance 3, 19, 20, 94, 95
  - Farm Income Stabilization Account (FISA) 28
  - parental insurance 21, 94, 96
  - political party 92
  - Québec parental insurance plan 21, 94, 96
  - Québec Pension Plan 3, 19 to 21, 95, 97
  - teacher exchange fund 50
  - union or professional 3, 98
- Cooperatives
  - cooperative investment plan 2, 58
  - rebates 3, 94
- Copyright 2, 31
- Cultural or communications organizations (donations) 29, 90

Culture
  arts associations 29
  arts organizations 29, 90
  copyright 2, 31
  cultural property 29, 32, 90
  deduction for musicians 30
  depreciation of works of art 33
  donations of the bare property of certain cultural property or of a work of art 32, 90, 91
  donations to arts organizations 29, 90
  donations to registered cultural or communications organizations 29, 90
  dues paid to an arts association 3, 29
  foreign producers 2, 32
  performer 2, 31
  public lending rights 2, 31
  registered cultural or communications organizations 29, 90
  right to remuneration for private copying 2, 31
  work of art 32, 33, 91
Currency exchange transactions 41

D

Damages for physical or mental injury 85
Death benefit 85
Deductions
  alimony 3, 86
  artists 30
  attendant's expenses 99
  averaging of income from artistic activities 31
  Canadian Forces personnel serving on a mission 2, 37
  carry-over of investment expenses 3, 99
  carry-over of losses 3, 101, 102
  contributions to a teacher exchange fund 50
  cooperative investment plan 2, 58
  copyright 2, 31
  deferred profit-sharing plan (DPSP) 78
  donation of securities 2, 39
  emergency service volunteers 35
  employees of an IFC 2, 61
  employees of an IGO 3, 88
  employment related-expenses 98
  expenses incurred to earn investment income 3, 99
  Farm Income Stabilization Account (FISA) 28
  farm losses 3, 101
  flow-through shares 2, 54, 56
  foreign experts (R&D) 2, 60
  foreign experts employed by a securities exchange or clearing house corporation 2, 62
  foreign farm workers 29
  foreign post-doctoral interns 2, 52
  foreign producers 2, 32
  foreign professors 3, 69
  foreign researchers 2, 60
  foreign specialists of a CDTI 2, 64
  foreign specialists of a E-Commerce Place 2, 68
  foreign specialists of a new economy centre 2, 64
  foreign specialists of an IFC 2, 62
  foreign specialists of biotechnology site 2, 65
  foreign specialists of innovation centre 2, 67
  foreign specialists of the Centre national des nouvelles technologies de Québec 2, 3, 64, 68
  foreign specialists of the Cité du multimédia 2, 64
  foreign specialists of the Montréal E-Commerce Zone 3, 68
  foreign specialists of the Montréal Foreign Trade Zone at Mirabel 3, 69
  foreign specialists of the nutraceuticals and functional foods sector 2, 66
  foreign specialists working for a corporation carrying out of activities in a biotechnology development centre 2, 66
  foreign specialists working for a corporation carrying out of new information and communications technologies sectors in certain designated sites 2, 64
  foreign specialists working in the e-business sector 3, 68
  home relocation loan 2, 36
  independent financial derivatives traders 2, 63
  lifetime $500 000 capital gains exemption on farm assets 2, 27
  lifetime $500 000 capital gains exemption on fishing assets 2, 28
  lifetime $500 000 capital gains exemption on small business corporation shares 2, 48
  lodging of members of a religious order 75
  losses as limited partner 47
  losses on a investment in a business 2, 48
  market makers 53
  moving expenses 3, 89
  musicians 30

- option to purchase units of a mutual trust fund 2, 38
- police officer serving on a mission 2, 37
- public lending rights 2, 31
- public transit 34
- QBIC 2, 57
- rebates 3, 94
- registered pension plan (RPP) 77
- registered retirement savings plan (RRSP) 77
- remote regions 3, 73
- residents of remote regions 3, 73
- right to remuneration for private copying 2, 31
- seamen 2, 61
- SLPW 2, 53
- SME Growth Stock Plan 55
- social assistance benefits 82
- stock option 2, 37
- Stock Savings Plan (QSSP) 2, 54
- student loans (SLPW) 2, 53
- support amount 3, 86
- support measures for handicapped persons 99
- tax agreement 3, 103
- tradespersons' tools 36
- tools of apprentice mechanics 52
- workers employed abroad 2, 37
- workers (for) 33

Deferral of capital gains .... 26, 42 to 45

Depreciation
- musical instruments 30
- works of art 33

Directors 34

Disabled persons
- attendant's expenses 99
- bursaries 49
- medical expenses 3, 80, 81
- refundable tax credit for child assistance 13
- supplement for handicapped children 13
- support measures for handicapped persons 80, 99
- tax credit for an impairment 82

Dividends
- capital 101
- gross-up 100
- tax credit 3, 100

Donations
- arts organizations 29, 90
- charity 89
- cultural property 32, 90
- ecological property 41, 90
- land 41, 90
- municipality 89
- musical instrument 32, 90
- non-taxation 87
- non-taxation of gains related to the donation of cultural property 32
- non-taxation of gains tied to donations of a musical instrument 32
- political education organizations 90
- reduction of the inclusion rate for gain relating to certain donations 40, 41
- registered cultural or communications organizations 29, 90
- securities 2, 39, 40, 89
- servitudes 41, 90
- shares 2, 39, 40, 89
- State 89
- tax credit 29, 89
- works of art 32, 91

E

E-business 3, 68

E-Commerce Place 2, 68

Eligible business investments losses 2, 48

Emergency services 35

Emergency services volunteers 35

Employee Benefit Plan 35

Employment
- apprentice mechanics 52
- attendant's expenses 99
- Canadian Forces personnel serving on a mission 2, 37
- child care expenses 17
- contributions to an arts association 3, 29
- death benefits 85
- deduction for workers 33
- deferral of salary because of leave 36
- deferred profit-sharing plan (DPSP) 78
- diplomats 99
- emergency services volunteers 35
- employee benefit plan 35
- employees of an IFC 2, 61
- employees of an IGO 3, 88
- employees of an INGO 88
- employment insurance contributions.. 3, 94, 95
- employment-related expenses 98
- foreign experts (R-D) 2, 60
- foreign experts employed by a securities exchange or clearing house corporation 2, 62
- foreign farm workers 29

foreign post-doctoral interns 2, 52
foreign professors 3, 69
foreign researchers 2, 60
foreign specialists of a CDTI 2, 64
foreign specialists of a E-Commerce Place 2, 68
foreign specialists of a new economy centre 2, 64
foreign specialists of an IFC 2, 62
foreign specialists of biotechnology site ...2, 65
foreign specialists of innovation centre.....2, 67
foreign specialists of the Centre national des nouvelles technologies de Québec 2, 3, 64, 68
foreign specialists of the Cité du multimédia 2, 64
foreign specialists of the Montréal E-Commerce Zone 3, 68
foreign specialists of the Montréal Foreign Trade Zone at Mirabel 3, 69
foreign specialists of the nutraceuticals and functional foods sector 2, 66
foreign specialists working for a corporation carrying out of activities in a biotechnology development centre 2, 66
foreign specialists working for a corporation carrying out of new information and communications technologies sectors in certain designated sites 2, 64
foreign specialists working in the e-business sector 3, 68
home relocation loan 2, 36
market makers 53
member of a committee or a board of directors 34
members of a religious order 75
moving expenses 3, 89
musician 30
new graduates working in a remote resource region 74, 75
non-monetary benefits 33
option to purchase units of a mutual trust funds 2, 38
parental insurance contributions.......21, 94, 96
pensions and indemnities paid to RCMP officers 85
police officer serving on a mission 2, 37
public officers 98
public transit 34
Québec Pension Plan contributions....3, 95, 97
registered pension plan (RPP) 77
remote regions 3, 73
seamen 2, 61
stock option plan 2, 37
strike benefits 35
support measures for handicapped persons 80, 99
taxi 92
tools of apprentice mechanics 52
tradespersons' tools 36
union or professional dues 3, 98
volunteer firefighters 35
worker's compensation benefit 84
workers employed abroad 2, 37

Employment insurance 3, 19, 20, 94, 95

Essential needs
  basic 94
  children engaged in vocational training or post-secondary studies 10
  dependant 12
  dependent children 9
  person living alone 8
  single-parent family 10
  spouse 7

Examination fees 3, 51

F

Families (tax reduction) 16

Farm Income Stabilization account (FISA)......28

Farm losses
  deduction for restricted farm losses 3, 101
  loss carry-over 3, 102

Fishing (see Agriculture)

Flat
  amount (simplified tax system) 1, 19
  retroactive payments 23

Flow-through shares
  additional deduction 2, 56
  basic deduction 2, 56
  capital gain 2, 57
  share issue expenses 2, 54

Foreign experts (R&D) 2, 60

Foreign experts employed by a securities exchange or securities clearing corporation 2, 62

Foreign post-doctoral interns 2, 52

Foreign producers 2, 32

Foreign professors 3, 69

Foreign researchers 2, 60

Foreign specialists 2, 3, 64 to 69

Foreign tax 3, 103

Forest producers
  income averaging 46
  property tax refund 93

Functional foods 2, 66

G

Gambling earnings 102

Gifts 29, 89

Guaranteed income supplement 84

H

Handicapped persons
  attendant's expenses 99
  bursaries 49
  medical expenses 3, 80, 81
  refundable tax credit for child assistance 13
  supplement for handicapped children 13
  support measures for handicapped persons 80, 99
  tax credit for an impairment 82

Home maintenance of an older person 72

Home relocation loan 2, 36

Housing
  members of a religious order 75
  property tax refund 22
  purchase or renovation assistance program 88
  remote areas 3, 73

I

Impairment in physical or mental functions
  amount for children engaged in vocational training or post-secondary studies 10
  attendant's expenses 99
  bursaries 49
  medical expenses 3, 80, 81
  support measures for handicapped persons 80, 99
  tax credit for an impairment 82

Income averaging
  artistic activities 31
  forest producers 46
  owners of woodlots damaged by the ice storm 45

Income replacement indemnities
  crime victims 84
  public indemnity plans 84
  RCMP officers 85
  SAAQ 84
  worker's compensation 84

Independent financial derivatives traders 2, 63

Indexation 4

Indians 87

Infertility (treatment) 15

Information technology development centre (CDTI) 2, 64

Innovation centre 2, 67

Interests on student loan 3, 51

International financial centre (IFC) 2, 61, 63

International organizations 3, 88

Investments
  Capital régional et cooperative Desjardins 70
  cooperative investment plan 2, 58
  dividends 3, 100, 101
  eligible business investment losses 2, 48
  expenses incurred to earn investment income 3, 99
  flow-through shares 2, 54, 56, 57
  labour funds 70
  limited partnership losses 47
  QBIC 2, 57
  rollover 46
  SME Growth Stock Plan (Accro PME) 55
  stock savings plan (QSSP) 2, 54
  War Savings Certificates 40

L

Labour funds (FSTQ – Fondaction) 70

Land 41, 90

Limited partnership losses 47

Lodging a parent 70

Losses as limited partner 47

Losses other than capital losses 3, 102

Lottery 102

M

Market makers 53

Medical expenses
  non-refundable tax credits 3, 80, 81
  refundable tax credit 80
  refundable tax credit for the treatment of infertility..15

Mirabel (Trade Zone)....................................3, 69

Montréal E-Commerce Zone 2, 68

Montréal Foreign Trade Zone at Mirabel......3, 69

Moving expenses
  business, employment, studies.................3, 89
  medical care...3, 81

Musical instrument 30, 32, 90

Musicians 30

Mutual trust fund...2, 38

N

Natural caregivers of adults..............................71

New-born children (allowance).......................... 14

New graduates working in a remote resource region 74, 75

New economy centre (CNE) 2, 64

Non-capital losses 3, 102

Non-monetary benefits (employment)..............33

Northern villages 50, 73

Nutraceuticals...2, 66

O

Older persons
  guaranteed income supplement 84
  home maintenance 72
  lodging a parent 70
  natural caregivers 71
  spouse's allowance...84
  tax credit with respect to age 79

P

Parental insurance plan........................21, 94, 96

Pensions
  RCMP officers...85
  veterans 86

Personal tax credits
  age (with respect to) 79
  basic..94
  children engaged in vocational training or post-secondary studies 10
  complementary amount 20, 94
  dependants (other than a child)................... 12
  dependent children 9
  flat amount 1, 19
  member of a religious order......................3, 75
  person living alone..8
  person suffering from an impairment............82
  retirement income...79
  single-parent family (first child)..................... 10
  spouse 7
  transfer of unused tax credits between spouses 21

Physical or mental injuries 85

Police officer serving on a mission 2, 37

Political education organizations 90

Political party...92

Principal residence...42

Private woodlots...45, 93

Products and services in support of for handicapped persons.........................80, 99

Property
  cultural 29, 32, 90
  ecological value 41, 90
  farm...2, 26, 27
  fishing 2, 26, 28
  mining 89
  musical instrument..............................30, 32, 90
  personal-use 41
  replacement..43

Property taxes
  forest producers..93
  tax refund...22

Prospecting sponsors 89

Prospectors...89

Public indemnity plans 84

Public lending rights......................................2, 31

Public transit 34

Purchase or renovation assistance program 88

Q

Québec Business Investment Companies (QBIC) 2, 57

- Québec parental insurance plan 21, 94, 96
- Québec Pension Plan (QPP) .. 3, 19 to 21, 95, 97
- Québec sales tax (tax credit) 24

R

- Real estate taxes (refund) 22
- Rebates 3, 94
- Refundable tax credits
  - adoption expenses 15
  - child care expenses 17
  - child assistance 13
  - home maintenance of an older person 72
  - infertility 15
  - lodging a parent 70
  - medical expenses 80
  - natural caregivers of adults 71
  - new-born children 14
  - new graduates working in a remote resource region 74
  - Québec sales tax 24
  - renewal of the taxi fleet 93
  - residents of northern villages 73
  - taxi 92, 93
  - top-level athletes 76
  - work premium 16
- Registered
  - cultural or communications organizations 29, 90
  - deferred profit-sharing plan (DPSP) 78
  - education savings plan (RESP) 50
  - pension plan (RPP) 77
  - retirement savings plan (RRSP) 77
- Religious order (members)
  - deduction for housing 75
  - personal tax credit 3, 75
- Relocation loan 2, 36
- Remote areas
  - bursaries 50
  - deductions for residents 3, 73
  - tax credit for new graduates working in a remote resource region 74, 75
  - tax credit for the inhabitants of a northern village 73
- Reserve 26, 44, 45
- Retirement
  - deferred profit-sharing plan (DPSP) 78
  - guaranteed income supplement 84
  - pensions to RCMP officers 85
  - registered pension plan (RPP) 77
  - registered retirement savings plan (RRSP) .. 77
  - spouse's allowance 84
  - tax credit for retirement income 79
  - tax credit with respect to age 79
  - veterans 86
- Retroactive flat payments 23
- Right to remuneration for private copying 2, 31
- Rollovers 26, 43, 46

S

- Salary deferral 35, 36
- Seamen (Québec) 2, 61
- Securities
  - capital gains 40
  - donations 2, 39, 40, 89
  - stock options .... 2, 37 to 39
- Securities clearing corporation 2, 62
- Securities exchange (experts) 2, 62
- Servitudes 41, 42, 90
- Shares
  - Accro PME 55
  - capital gains 2, 26, 27, 28, 40, 45, 48, 57
  - Capital régional et coopératif Desjardins 70
  - dividend 3, 100, 101
  - donations 2, 39, 40, 89
  - farm assets 2, 26, 27
  - fishing assets 2, 26, 28
  - flow-through 2, 54, 56, 57
  - labour funds (FSTQ-Fondaction) 70
  - Québec Business Investment Companies (QBIC) 2, 57
  - small businesses 2, 45, 46, 48
  - SME Growth Stock Plan 55
  - stock options plan 2, 37, 39
  - Stock savings plan (SSP) 2, 54
- Simplified tax system
  - flat amount 1, 19
  - transfer between spouses of unused tax credits 21
- Single-parent family 10, 13
- SME Growth Stock Plan (Accro PME) 55
- Social assistance benefits 82
- Sponsors (prospecting) 89
- Spouse
  - allowance 84
  - death benefits 85
  - family trusts 47
  - support amount 3, 86

  - tax credit for spouses 7
  - transfer of certain tax credits between spouses 21
  - transfer of property between spouses 44
- Spouse's allowance 84
- Stock purchase options 2, 37 to 39
- Stock Savings Plan (SSP) 2, 54
- Strike benefits 35
- Student loan 3, 51
- Studies
  - apprentice mechanics 52
  - attendant's expenses 99
  - bursaries 49, 50
  - contributions to a teacher exchange fund 50
  - foreign post-doctoral interns 2, 52
  - new graduates working in a remote resource region 74, 75
  - post-secondary 10
  - refundable tax credit for child care expenses 17
  - registered education savings plan (RESP) 50
  - Subsidy and Loan Program for Workers (SLPW) 2, 53
  - support measures for handicapped persons 80, 99
  - tax credit for children engaged in vocational training or post-secondary studies 10
  - tax credit for interest paid on a student loan 3, 51
  - tax credit for tuition and examination fees 3, 51
  - vocational training 10
- Subsidy and Loan Program for Workers (SLPW) 2, 53
- Supplement for handicapped children 13
- Support amount 3, 86

T

- Tax agreement 3, 103
- Tax credits (other than personal)
  - Capital régional et coopératif Desjardins 70
  - contributions to a political party 92
  - dividends 3, 100
  - donations 89
  - employment insurance contributions 3, 95
  - foreign tax 3, 103
  - gifts 89
  - interest paid on a student loan 3, 51
  - labour funds (FSTQ – Fondaction) 70
  - medical care 3, 81
  - medical expenses 3, 80, 81
  - new graduates working in a remote resource region 75
  - Québec Pension Plan contributions 3, 97
  - tax of another province 103
  - tax reduction in respect of families 16
  - transfert of unused tax credits between spouses 21
  - tuition or examination fees 3, 51
  - union or professional dues 3, 98
- Tax holiday
  - foreign experts (R&D) 2, 60
  - foreign experts employed by a securities exchange or securities clearing-house corporation 2, 62
  - foreign post-doctoral interns 2, 52
  - foreign professors 3, 69
  - foreign researchers 2, 60
  - foreign specialists of a CDTI 2, 64
  - foreign specialists of a E-Commerce Place 2, 68
  - foreign specialists of a new economy centre 2, 64
  - foreign specialists of an IFC 2, 62
  - foreign specialists of biotechnology site 2, 65
  - foreign specialists of innovation centre 2, 67
  - foreign specialists of the Centre national des nouvelles technologies de Québec 2, 3, 64, 68
  - foreign specialists of the Cité du multimédia 2, 64
  - foreign specialists of the Montréal E-Commerce Zone 3, 68
  - foreign specialists of the Montréal Foreign Trade Zone at Mirabel 3, 69
  - foreign specialists of the nutraceuticals and functional foods sector 2, 66
  - foreign specialists working for a corporation carrying out of activities in a biotechnology development centre 2, 66
  - foreign specialists working for a corporation carrying out of new information and communications technologies sectors in certain designated sites 2, 64
  - foreign specialists working in the e-business sector 3, 68
- Tax of another province 103
- Tax reduction in respect of families 16
- Tax treaty 3, 103

Taxis 92, 93

Tools of apprentice mechanics 52

Top-level athlete 76

Tradespersons' tools 36

Transfer between spouses of unused
  refundable tax credits 21

Trusts
  familiy 47
  tax of another province 103

Tuition fees
  adult education 83
  tax credit 3, 51

U

Universal Child Care Benefit (UCCB) 97

V

Veterans 86

Victims of the ice storm (woodlots) 45

Vocational training 10

Volunteer firefighters 35

W

War
  allowances 86
  pensions 86
  savings certificate 40
  veterans 86

War Savings Certificate 40

Work premium 16

Worker's compensation 84

Workers
  abroad 2, 37
  deduction for 33
  foreing farm 29

Works of art
  bare property 32, 91
  depreciation 33
  donations 32, 91

Index
Tax expenditures related to the corporate tax system

A

Access roads in forest areas (refundable tax credit for the construction of) 156
Agricultural or fishing corporations 177
Airline companies (see Transportation, air)

B

Biotechnology 110, 140, 145, 170, 183
Biotechnology development centres (innovative project)
  exemption from employer contributions to the HSF 183
  exemption from the tax on capital 170
  tax credit for the acquisition or lease of equipment 140
  tax credit for the short-term rental of eligible specialized facilities 140
  tax credit for wages 140
  tax exemption 110
  tax holiday 110, 170, 183
Book publishing 130
Bridges in forest areas (refundable tax credit for the construction of) 156
Business competitive intelligence centres 123

C

Capital gains (deferral of) 165
Capital régional et coopératif Desjardins 116
Capital tax credit regarding certain types of investments 180
Centre national des nouvelles technologies de Québec 142, 146
Charities 106, 177
Cité de l'optique 153
Cité du multimédia 142
Clothing and footwear 132
Communications (new technologies) 109, 140, 169, 182
Competitive intelligence centres 123
Computer animation 126, 127
Computer special effects 126, 127
Cooperatives
  deduction of rebates 164
  tax on capital 176
Countervailing and antidumping duties 120
Culture (tax credit)
  book publishing 130
  computer animation 126, 127
  computer special effects 126, 127
  film dubbing 128
  film or television production 125, 126
  film production services 127
  production of digital shows 129
  production of shows 129
  production of sound recordings 128

D

Deductions
  accelerated amortization 157, 158, 161, 162
  accelerated amortization of Canadian development expenses 157
  accelerated amortization of Canadian exploration expenses 157
  accelerated depreciation to help make computer systems year 2000 compliant 162
  advertising expenses 159
  allowances for earthquakes 121
  antidumping and countervailing duties 120
  capital expenditures pertaining to R&D 158
  contributions to an environmental trust 160
  depreciation ....157 to 159, 161, 162, 164
  dividends of foreign subsidiaries 167
  donations 118
  entertainment expenses 165
  expenses of construction contractors 160

  - expenses relating to renewable energies and energy conservation in Canada 158
  - expenses relating to resources 157
  - gifts 118
  - intangible fixed assets 167
  - investment corporations 166
  - land-holding expenses 158
  - rebates 164
  - Réseau d'investissement social du Québec 163
  - resources 117
  - royalties paid to Indian bands 117
  - small businesses 105
  - super-deductions for R&D 122
  - tax on forest operations 166

- Deferral of capital gains 165
- Depreciation
  - accelerated 157, 158, 161, 162
  - additional 20% deduction 161
  - assets ready to be put into service 159
  - Canadian development expenses 157
  - Canadian exploration expenses 157
  - computer system (year 2000) 162
  - expenses relating to resources 157
  - supplementary 25% deduction 161
  - tax 164
- Design 123
- Donations 118
- Dubbing 128

E

- E-business 146
- E-Commerce
  - integration of solutions 145
  - Place 143, 187
- Earthquakes (allowances) 121
- Environmental trust 160
- Ethanol 149
- Expenses
  - advertising 159
  - Canadian development 157
  - Canadian exploration 157
  - entertainment 165
  - land-holding 158

F

- Film dubbing 128
- Film or television productions 125, 126
- Film production services 127
- Financial derivatives 137
- Financial institutions 179
- Foreign subsidiaries 167
- Forest operations 166
- Functional foods 147
- Funds
  - investment 111, 133, 134
  - labour 116
  - managers (of) 135
  - trust established for land-fill sites 160

G

- Gaspésie 154
- Gifts 118
- Government organizations 107, 177

H

- Health Services Fund (exemption)
  - biotechnology development centres 183
  - information technology development centres 182
  - innovative projects 182, 183
  - international financial centres 181
  - major investment projects 185
  - manufacturing SMEs in remote resource regions 186
  - Montréal Foreign Trade Zone at Mirabel 184
  - new corporations 181
  - new economy centre 182
  - securities clearing-house corporations 184
  - stock exchanges 184
- Health Services Fund (refundable tax credit) 187
- Holdbacks on payments to contractors 160

I

- Inactive corporations 177
- Information (new technologies) 109, 140, 169, 182
- Information technology development centres (innovative project)
  - exemption from employer contributions to the HSF 182
  - exemption from the tax on capital 169
  - tax credit for the acquisition or lease of equipment 140

  - tax credit for wages 140
  - tax exemption 109
  - tax holiday 109, 169, 182

Innovation centre 147

Innovative projects 109, 110, 169, 170, 182, 183

Insurance
  - allowances for earthquakes 121
  - non-taxation of investment income derived from life insurance policies 162
  - non-taxation of life insurance companies on their income from foreign sources 162
  - tax on capital 175

Intangible fixed assets 167

International financial centres (IFCs)
  - exemption from employer contributions to the HSF 181
  - exemption from the tax on capital 169
  - tax credit for canvassing expenses 133
  - tax credit in respect of the training period of specialized employees 132
  - tax exemption 108
  - tax holiday 108, 169, 181

Investment corporations 166

Investment dealers 138

Investors 134

J

Job creation 132, 148

Junior financial analysts 136, 137

L

Labour funds 116

Liaison and transfer centres 123

M

Major investment projects
  - Health Services Fund 185
  - income tax 113
  - tax on capital 173

Manufacturing SMEs in remote resource regions
  - Health Services Fund 186
  - income tax 115
  - tax on capital 174

Marine corporations (see Transportation, marine)

Maritime regions 154

Mining corporations 175, 178

Mirabel (see Montréal Foreign Trade Zone at Mirabel)

Montréal E-Commerce Zone 146

Montréal Foreign Trade Zone at Mirabel
  - exemption from employer contributions to the HSF 184
  - exemption from the tax on capital 171
  - tax credit for the acquisition or lease of equipment 151
  - tax credit for the construction of strategic buildings 152
  - tax credit on an eligible customs brokerage contract 150
  - tax credit on wages 150
  - tax exemption 112
  - tax holiday 112, 171, 184

Multimédia
  - Cité 142
  - production of titles 139

N

Nasdaq stock market 138

Natural resources
  - accelerated amortization of Canadian development expenses 157
  - accelerated amortization of Canadian exploration expenses 157
  - deduction of one-third of the paid-up capital of mining companies 175
  - deduction relating to resources 117
  - expenses relating to renewable energies and energy conservation in Canada 158
  - expenses relating to resources 157
  - mining corporations yet to reach the production stage 178
  - refundable tax credit 155

New corporations
  - Health Services Fund 181
  - income tax 107
  - tax on capital 168

New economy centres (carrying out an innovative project) 142

New economy centres (innovative project)
  - exemption from employer contributions to the HSF 182

  exemption from the tax on capital 169
  tax credit for the acquisition or lease of equipment 140
  tax credit for wages 140
  tax exemption 109
  tax holiday 109, 169, 182
New graduates (tax credit for hiring) 155
New information and communications technologies 109, 140, 169, 182
Non-profit organizations 106, 177
Non-taxation of tax credits 117
Nutraceuticals 147

O

On-the-jobs training periods 124
Optics 153

P

Pig manure 152
Property taxes 158

Q

Quarries for the extraction of aggregates 160

R

Racehorses 131
Railway 139
Real estate tax 158
Rebates (deduction) 164
Reduced tax rate
  savings and credit unions 106
  small businesses 105
Refundable tax credits
  access roads in forest areas 156
  acquisition of pig manure treatment facilities 152
  acquisition or lease of equipment for operations in a biotechnology development centre 140
  acquisition or lease of equipment for operations in a new economy centre 140
  acquisition or lease of equipment for operations in an information technology development centre 140
  acquisition or lease of equipment relating to the Montréal Foreign Trade Zone at Mirabel 151
  biotechnology development in a designated site 145
  book publishing 130
  bridges in forest areas 156
  canvassing expenses for a foreign investment fund 133
  canvassing expenses of an IFC 133
  Cité de l'optique 153
  communications between corporations and investors 134
  computer animation 126, 127
  computer special effect 126, 127
  construction of public access roads and bridges in forest areas 156
  construction of strategic buildings in the Montréal Foreign Trade Zone at Mirabel 152
  contract with a research consortium 121
  contract with an eligible public research centre 121
  contributions to the HSF of employer located in E-Commerce Place 187
  corporations located in
    Centre national des nouvelles technologies de Québec (the) 142, 146
    Cité du multimédia (the) 142
    E-Commerce Place 143, 187
    new economy centres (a) 140, 142
  creation of investment funds 134
  declaration of tips 148
  design 123
  e-business in a designated site 146
  eligible customs brokerage contracts at the Montréal Foreign Trade Zone at Mirabel 150
  eligible digital shows 129
  film dubbing 128
  film or television production 125, 126
  film production services 127
  functional foods 147
  fund managers 135
  Gaspésie 154
  hiring junior financial analysts specializing in financial derivatives 137
  hiring junior financial analysts specializing in the securities of Québec corporations 136
  hiring of employees specializing in financial derivatives 137
  hiring new graduates 155
  increase in R&D expenses 122
  innovation centres 147

  innovative project in a CDTI, CNE or biotechnology development centres ... 140
  integration of e-commerce solutions by SMEs ... 145
  investment dealers on the Nasdaq stock market ... 138
  job creation in the clothing and footwear industry ... 132
  major job-creating projects ... 148
  maritime regions ... 154
  natural resources ... 155
  non-taxation ... 117
  nutraceuticals ... 147
  on-the-job training periods ... 124
  precompetitive R&D research ... 121
  precompetitive research project ... 121
  processing activities in the resource regions ... 154
  production of digital shows ... 129
  production of ethanol in Québec ... 149
  production of multimedia titles ... 139
  production of shows ... 129
  production of sound recordings ... 128
  R&D research consortium ... 121
  racehorses ... 131
  railroads ... 139
  salaries paid for activities in a building of a new economy centre ... 142
  salaries paid for activities in a building of the Centre national des nouvelles technologies de Québec ... 142
  salaries paid for an innovative project in a biotechnology development centre ... 140
  salaries paid for an innovative project in a new economy centre ... 140
  salaries paid for an innovative project in an information technology development centre ... 140
  salaries paid for R&D activities ... 121
  salaries relating to the Montréal Foreign Trade Zone at Mirabel ... 150
  shipbuilding or conversion ... 131
  short-term rental of eligible specialized facilities in a biotechnology development centre ... 140
  special effects and computer animation ... 126, 127
  technological adaptation services ... 123
  Technopôle Angus ... 144
  training period of young specialized employees of an IFC ... 132
  university research contract ... 121
  Vallée de l'aluminium ... 153

Remote resource regions (manufacturing SMEs)
  Health Services Fund ... 186
  income tax ... 115
  tax on capital ... 174

Renewable energy ... 158

Réseau d'investissement social du Québec .. 163

Resource regions
  hiring new graduates ... 155
  processing activities ... 154

Rollover (disposition of) ... 165

Royalties paid to Indian bands ... 117

S

Savings and credit unions
  deduction of rebates ... 164
  reduced taxation rate ... 106
  tax on capital ... 176

Scientific research and experimental development (R&D)
  deduction for capital expenditures ... 158
  refundable tax credits ... 121, 122
  super-deductions for R&D ... 122

Securities clearing-house corporations
  Health Services Fund ... 184
  income tax ... 113
  tax on capital ... 172

Ships ... 131, 178

Shows
  digital ... 129
  production ... 129

Small businesses ... 105

Sound recordings ... 128

Special effects and computer animation ... 126, 127

Stock exchanges
  Health Services Fund ... 184
  income tax ... 113
  tax on capital ... 172

Super-deductions for R&D ... 122

T

Tax exemption
  biotechnology development centres ... 110
  Capital régional et coopératif Desjardins ... 116
  government organizations ... 107

  holiday (see Tax holiday)
  information technology development centres 109
  international financial centres 108
  investment fund 111
  investment income from life insurance policies 162
  labour fund 116
  life insurance companies on their income from foreign sources 162
  major investment projects 113
  manufacturing SMEs in remote resource regions 115
  Montréal Foreign Trade Zone at Mirabel 112
  new corporations 107
  new economy centres 109
  non-profit organizations 106
  profits of foreign air and maritime transportation companies 163
  registered charities organizations 106
  securities exchanges or clearing-house corporations 113

Tax holiday
  biotechnology development centres 110, 170, 183
  information technology development centres (CDTI) 109, 169, 182
  innovative projects 109, 110, 169, 170, 182, 183
  international financial centres (IFC) 108, 169, 181
  major investment projects 113, 173, 185
  manufacturing SMEs in remote resource regions 115, 174, 186
  Montréal Foreign Trade Zone at Mirabel 112, 171, 184
  new corporations 107, 168, 181
  new economy centre 109, 169, 182
  new information and communications technologies 109, 169, 182
  securities clearing-house corporations 113, 172, 184
  stock exchanges 113, 172, 184

Tax on capital (credit regarding certain types of investments) 180

Tax on capital (deduction)
  agricultural or fishing corporations 177
  financial institutions 179
  gradual exemption 175
  mining corporations 175, 178
  new investments in certain sectors 179
  rate for life and health insurance premiums 175
  ships (acquisition or conversion) 178
  vehicles in inventory 178

Tax on capital (exemption)
  biotechnology development centres 170
  cooperatives 176
  inactive corporations 177
  information technology development centre 169
  innovative projects 169, 170
  international financial centres 169
  major investment projects 173
  manufacturing SMEs in remote resource regions 174
  Montréal Foreign Trade Zone at Mirabel 171
  new corporations 168
  new economy centres 169
  non-profit organizations (government, charity or other) 177
  securities clearing-house corporations 172
  securities exchange 172

Tax on forest operations 166

Technology adaptation (services) 123

Technology transfer centres 123

Technopôle Angus 144

Tips 148

Transportation, air
  exemption from tax on the profits of foreign corporations 163
  Federal Aviation Fuel Excise Tax Rebate Program 163

Transportation, marine
  deduction in the calculation of paid-up capital for the acquisition or conversion of ships 178
  exemption from tax on the profits of foreign corporations 163
  refundable tax credit for shipbuilding or conversion 131

V

Vallée de l'aluminium 153

Vehicles in inventory 178

Index
Tax expenditures related to the consumption tax system

A

Accounting methods
  (see Administration of the QST)
Administration of the QST
  quick method for qualifying public service bodies 197
  quick method for small businesses 197
  simplified calculation methods of ITRs and partial QST rebates 197
  simplified method for charities 196
  small suppliers 196
Agriculture
  (see Fuel tax)
Aircraft
  (see Fuel tax)
Alcoholic beverages
  (see Tax on alcoholic beverages)
Aviation
  (see Fuel tax)

B

Basic groceries zero-rated 139
Biodiesel fuel
  (see Fuel tax)
Books zero-rated 190
Border and remote regions
  (see Fuel tax)
Breast-feed or bottle-feed infants zero-rated 190
Bridge tolls
  (see Exempt supplies (QST))
Buildings
  exemption on sales of used residential buildings or personal use buildings 191
  rebate of the QST for
    purchasers of new residential housing 194
    lessors of new residential property 195
  rental accommodation exempted 191

C

Charities
  rebate of the QST 193
  simplified calculation method of the QST to be remitted 196
  suplies exempted 193
Children
  child care and personal care services exempted 192
  children's deapers and items used to breast-feed or bottle-feed infants zero-rated 190
Colleges
  (see Education)
Commercial vessels
  (see Fuel tax)
Compensatory tax in respect of financial institutions
  (see Financial services (QST))

D

Disabled persons
  personal care services exempted 192
  rebate of the QST for
    automatic door openers 195

E

Education
  educational services exempted 192
  rebate of the QST to schools, colleges and universities 194

Employees and partners (rebate of QST) 199

Entertainment expenses (QST) 198

Exemption (QST)
  (see also Zero-rated supplies (QST) and Exempt supplies (QST))
  Non-taxable imports 198
  Société Saint-Jean-Baptiste de Montréal ... 198

Exempt supplies (QST)
  child care and personal care services 192
  educational services 192
  ferries and road and bridge tolls 193
  health care services 191
  municipal transit services 193
  rental accommodation 191
  sales of used residential buildings or personal use buildings 191
  standard municipal services 192
  supplies by charities and non-profit organizations 193

F

Farm businesses
  (see Fuel tax)

Ferries
  (see Exempt supplies (QST))

Financial services (QST)
  compensatory tax in respect of financial institutions 191
  ITRs 190
  Zero-rated 190

Fishing
  (see Fuel tax)

Food
  basic groceries zero-rated 189

Forest businesses
  (see Fuel Tax)

Forest producers
  (see Fuel tax)

Fuel
  (see Fuel tax)

Fuel tax
  aircraft (reduction in the rate) 201
  aviation (exemption and refund) 202
  biodiesel fuel (refund) 203
  border and remote regions (reduction in the rate) 200
  commercial vessels (exemption) 202
  farm, forest and mining businesses (refund) 202
  farmers (exemption and refund) 201
  fishers (exemption and refund) 201
  industrial sector (exemptions and refunds) 201
  motor used to supply an engine for stationary purposes (refund) 203
  propane gas (exemption) 202
  public carriers (refund) 203
  railroad locomotives (reduction in the rate) 201

H

Health
  automatic door openers for the disabled persons (rebate of the QST) 195
  health care services exempted 191
  medical devices zero-rated 189
  prescription drugs zero-rated 189

Health care institutions
  (see Hospitals)

Health care services
  (see Health)

Hospitals
  rebate of the QST 194

Hybrid vehicles
  (see Rebate of the QST)

I

Insurance
  (see Tax on insurance premiums)

M

Medical devices zero-rated 189

Mining businesses
  (see Fuel tax)

Motor used to supply an engine for stationary purposes
  (see Fuel tax)

Municipalities
  standard municipal services exempted 192
  municipal transit services exempted 193
  rebate of the QST 194

N

Non-profit organizations
  rebate of the QST 193
  supplies exempted 193
Non-taxable imports (QST) 198

P

Personal care
  (see Children; Disabled persons; Underprivileged persons)
Prescription drugs zero-rated 189
Propane gas
  (see Fuel tax)
Public transport
  (see Municipalities; Fuel tax)

Q

Qualifying public service bodies
  quick calculation method of the QST to be remitted 197
  simplified calculation method of partial QST rebates 197
QST input tax refunds (ITRs)
  entertainment expenses 198
  financial services zero-rated 190

R

Railroad locomotives
  (see Fuel tax)
Rebate of the QST
  automatic door openers for disabled persons 195
  charities and non-profit organizations 193
  employees and partners 199
  foreign tourists 195
  hybrid vehicles 196
  lessors of new residential property 195
  purchasers of new residential housing 194
  schools, colleges, universities, hospitals and municipalities 194
Rental accommodation exempted 191
Road tolls
  (see Exempt supplies (QST))

S

Schools
  (see Education)
Small businesses (QST)
  quick calculation method of the QST to be remitted 197
  simplified calculation method of ITRs 197
Small suppliers (QST) 196
Société Saint-Jean-Baptiste de Montréal (QST) 198

T

Tax on alcoholic beverages
  alcoholic beverages sold by small-scale producers (reduction in the rates) 204
  beer sold by microbreweries (reduction in rates) 204
Tax on insurance premiums
  automobile insurance (reduction in the rate) 199
  compulsory insurance plans (exemption) 199
  individual insurance of persons (exemption) 199
Tolls (Road and bridge)
  (see Exempt supplies (QST))
Tourism
  rebate of the QST to foreign tourists 195

U

Underprivileged persons
  personal care services exempted 192
Universities
  (see Education)

Z

Zero-rated supplies (QST)
  basic groceries 189
  books 190
  children's diapers and items uses to breast-feed or bottle-feed infants 190
  financial services 190
  medical devices 189
  prescription drugs 189

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